EFFECTS OF POPULATION SHIFTS BETWEEN RURAL AND URBAN AREAS

HEARING

BEFORE THE

SUBCOMMITTEE ON CENSUS AND POPULATION

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

JUNE 13, 1988

Serial No. 100-69

Printed for the use of the Committee on Post Office and Civil Service

U.S. GOVERNMENT PRINTING OFFICE

90-255 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H621-15

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

WILLIAM D. FORD, Michigan, *Chairman*

WILLIAM (BILL) CLAY, Missouri
PATRICIA SCHROEDER, Colorado
STEPHEN J. SOLARZ, New York
ROBERT GARCIA, New York
MICKEY LELAND, Texas
GUS YATRON, Pennsylvania
MARY ROSE OAKAR, Ohio
GERRY SIKORSKI, Minnesota
FRANK McCLOSKEY, Indiana
GARY L. ACKERMAN, New York
MERVYN M. DYMALLY, California
MORRIS K. UDALL, Arizona
RON DE LUGO, Virgin Islands

GENE TAYLOR, Missouri
BENJAMIN A. GILMAN, New York
CHARLES PASHAYAN, JR., California
FRANK HORTON, New York
JOHN T. MYERS, Indiana
DON YOUNG, Alaska
DAN BURTON, Indiana
CONSTANCE A. MORELLA, Maryland

TOM DEYULIA, *Staff Director*
ROBERT E. LOCKHART, *General Counsel*
PATRICIA F. RISSLER, *Deputy Staff Director and Chief Clerk*
JOSEPH A. FISHER, *Minority Staff Director*

SUBCOMMITTEE ON CENSUS AND POPULATION

MERVYN M. DYMALLY, California, *Chairman*

ROBERT GARCIA, New York
GERRY SIKORSKI, Minnesota

CONSTANCE A. MORELLA, Maryland
DAN BURTON, Indiana

TERRIANN LOWENTHAL, *Subcommittee Staff Director*

CONTENTS

	Page
Statements of:	
Dr. Larry Long, Chief, Demographic Analysis Staff, Bureau of the Census	3
Dr. Calvin Beale, Senior Demographer, Economic Research Service, U.S. Department of Agriculture	17
Lani Kawamura, Commissioner, Minnesota State Planning Agency	27
Dr. Wilbur Maki, Department of Agricultural and Applied Economics, University of Minnesota	36
Barbara Bladin, Biwabik Community United Church of Christ, Biwabik, MN	82
Vi Velta, Stop Gap, Winnebago, MN	92
Perry Nelson, hog farmer, Shakopee Farms, New London, MN	97
Dan Edgar, Central Minnesota Farm Rural Project, Glenwood, MN	102
Terry Montgomery, President and Chief Executive Officer, Greater Minnesota Corp	113
Greg Sandbulte, Executive Director, Northspan Group, Minnesota Marketplace	120
Dr. Thomas Gillaspy, State Demographer, Business and Industry Data Center, Minnesota State Planning Agency	125
Statements submitted by:	
Grace Cherro, Aurora, MN, President, Laurentian Craft Club	74
Terry Stone, Executive Director, Region Nine Development Commission, Mankato, MN	96

EFFECTS OF POPULATION SHIFTS BETWEEN RURAL AND URBAN AREAS

MONDAY, JUNE 13, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CENSUS AND POPULATION,
COMMITTEE ON THE POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m. in room 15, State Capitol Building, St. Paul, Minnesota, Hon. Mervyn Dymally presiding.

Mr. SIKORSKI. The Subcommittee on Census and Population will come to order.

Chairman Dymally is on his way in. He asked me to begin the hearing until he gets here, and in his absence, place in the record his opening statement which is lavish in praise of all of us in Minnesota and me personally and all of you for coming and we appreciate that.

OPENING STATEMENT OF THE HON. MERVYN M. DYMALLY

Mr. DYMALLY. I would like to begin by thanking my good friend, Mr. Sikorski, for inviting our subcommittee to hold a hearing in his home State.

In fact, it was his interest and work which has resulted in this hearing. Residents of the 6th District and the State of Minnesota are fortunate to have such a capable representative in Congress.

Today, the subcommittee will hear testimony on a growing concern in Minnesota and throughout the nation.

Population shifts, in general, present a unique set of socioeconomic side effects which have been the subject of extensive studies at learning institutions and planning agencies.

The shift, however, between rural and urban areas in predominantly rural States, such as Minnesota, presents unprecedented problems.

The state of the economy, both domestically and internationally, has only worsened the plight of those caught in these population shifts.

Of greater concern is the lack of public understanding and responsiveness to this crisis.

I commend the efforts of private and grassroot organizations of this State which have focused on addressing this problem.

I hope that this hearing will begin the education of Congress and the federal government on the unique nature of population shifts between rural and urban areas.

Our witnesses will provide us with an idea of the causes behind these population shifts, the scope of their effects, and suggestions on how we might adequately address population-related problems.

I welcome all of you to the hearing this morning and I look forward to your testimony.

Mr. SIKORSKI. I would like to welcome you all here as well and thank Chairman Dymally for his interest in this issue and his leadership in holding this hearing today.

I think it is especially noteworthy that a Congressman from Los Angeles is concerned about the population drain facing rural America.

But I think his concern points to the fact that all Americans, urban as well as suburban and rural, are affected by the economic problems and resulting population drain facing rural areas.

Since 1983, thousands of people have fled the economically depressed areas of rural Minnesota; millions, close to a million, from economically depressed areas or rural America, seek jobs and a better life in more populated areas of our state and other states.

In 1986 in Minnesota, almost 77 percent of our residents resided in the city suburban area and the state's population growth is now concentrated in three metropolitan areas: St. Paul/Minneapolis metropolitan area, Rochester and St. Cloud metropolitan area.

In the past five years, suburban Minnesota has boomed while rural population growth has waned.

Statisticians and experts in population tell us that agriculture areas in the south, the west, the iron range and lumbering areas of northeastern Minnesota have had the highest rates of out-migration.

And as we will learn today, the current drought could accelerate this trend greatly. What this means in rural terms for real people is that families who have lived in the same town for generations are finding that the current generation of young people are forced—they have no options—to leave the area for employment elsewhere.

It means Main Streets lined with empty storefronts. It means clusters of farmers bidding on their neighbors possessions at bank auctions. It means school populations dwindling to the point that local schools are closed and children bussed many more miles for basic education.

But we are not having this hearing as a gloom and doom kind of hearing to announce the death of Greater Minnesota or join the mourners who cry out and throw up their hands and walk away.

Instead, we are here to concentrate on the many positive initiatives that are springing up around the State of Minnesota.

These projects include grass roots efforts around the state begun by regular people in response to their own and their neighbor's difficulties.

They also include major public and private ventures designed to increase Minnesota's economic competitiveness, especially in the nonmetropolitan parts of Minnesota.

Together, the people of Greater Minnesota are working to maintain the vitality, stability that have characterized the region for so long.

We will hear today from federal and Minnesota demographers and economists who will describe the situation we are facing and the trends that are emerging.

We will then focus on the efforts of five representatives of some of Greater Minnesota's finest and most successful local initiatives.

Through the projects we will hear about today, about everything from gutting hogs to peddling handmade crafts, the lives of many Minnesotans have been enriched.

We will hear from Barbara Bladin. We will hear from Grace Cherro, Vi Velta, Terry Nelson, Dan Edgar and others.

Finally, but certainly not least, we will hear the testimony of Minnesotans who are organizing public and private initiatives to address concerns for greater Minnesota on a larger scale.

The witnesses at this hearing today are all participants in an exciting effort to ensure a brighter future for all Minnesotans, rural, urban, suburban.

They are people that rather than allowing difficulties to drag them down, respond to problems by rolling up their sleeves and going to work.

We are honored to have them here with us today and the subcommittee looks forward to their testimony.

And without objection, the opening statement of the Honorable Mervyn Dymally will be placed in the record at the beginning of the hearing.

Our first witness today is Dr. Larry Long, who is the Chief of the Demographic Analysis Staff at the U.S. Census Bureau.

He brings to the hearing today a wealth of knowledge and represents an agency known around the world for its exemplary professional work, so much so that it is called upon on a contract basis to do the census population work for other countries.

I am pleased to have him with us today to share his wisdom on these issues.

We are going to ask people to summarize. The written testimony will appear in the record as it is written.

You even get some chances to make some corrections in the next few days. We ask that people summarize and make the salient points in seven minutes or less, if that is okay.

Dr. Long, why don't you begin?

STATEMENT OF DR. LARRY LONG, CHIEF, DEMOGRAPHIC ANALYSIS STAFF, BUREAU OF THE CENSUS

Dr. LONG. Thank you.

I appreciate the opportunity to be here today to discuss important issues concerning demographic trends in urban and rural parts of the United States.

In my written presentation I tried to give a broad overview and a summary of urban and rural population shifts for the nation as a whole and the various regions of the country.

If there is a single major conclusion, it is that rural population growth has been slowing markedly over the past few years and that population in urban and rural settings may be becoming more sensitive to international flows of people and capital.

I would like to back up a moment and say that one of the major demographic surprises of the 1970s was a surge of population growth in many rural and small-town settings.

This surge of growth caught everybody by surprise. Previously through the entire Twentieth Century and most of the Nineteenth Century, metropolitan areas had grown much faster than nonmetropolitan areas. Then the world was stood on its head.

And roughly from 1970 to 1980, population grew faster in the rural areas and small towns than it did in the metropolitan areas.

These demographic trends suggested a revitalization of many rural areas giving them a broader demographic base, a firmer economic footing, and what seemed like a brighter future.

These developments appeared to benefit the people who lived in rural locations or who wanted to. And what was happening was a nonmetropolitan turnaround. It was described as counter-urbanization. And it was described even as a rural Renaissance.

By the early 1980s, however, the metropolitan population was again growing faster than the nonmetropolitan population.

And by the mid-1980s, the differential in growth rates was almost as great as it was back in the 1960s when the pace of metropolitanization was at its peak.

These reversals were as unforeseen as the onset of the rural Renaissance of the 1970s and the basic facts are given in the paper, which also summarizes the long-term and short-term trends in population growth in urban and rural settings throughout the Twentieth Century and annually after 1970.

Metropolitanization was increasing at an increasing rate after World War II. These were decades or massive urban migration of blacks, but they were also times when American manufacturing dominated world markets and offered steady work at high wages to persons willing to leave rural towns and rural locations for industrial centers.

During the 1960s, the metropolitan population grew almost four times as fast as nonmetropolitan territory. The turnaround in growth rates began around then and lasted until roughly 1980 or so.

And during this remarkable decade, population growth for rural and small town areas was fueled by a great many demographic groups; by young families with children, by middle aged persons, and persons of retirement age.

Not contributing to rural growth in the 1970s were blacks and persons of young adult age who continued to migrate to cities.

By 1986, however, metropolitan territory was growing much faster than nonmetropolitan territory. In fact, the differential in growth was almost as great in 1986 as it was in the 1960.

The differences were due primarily to sagging rates of growth in rural areas. I would like to pause here and ask why, what has changed, why has growth in metropolitan areas increased and why has growth in rural areas fallen.

In terms of metropolitan areas, one reason for increased growth is immigration. Up to 95 per cent of immigrants go to metropolitan areas and the higher levels of immigration since the mid-1970s has increased metropolitan population in both the short run and the long run.

But that is not the whole story. Even if there were no immigration, rural growth would have slowed and metropolitan growth would have increased simply because more people are leaving rural areas to go to cities and suburbs and fewer people are leaving cities and suburbs to go to rural areas now than was true in the 1970s.

The reasons for these changes are tied to all of the considerations that enter into migration decisions. For most people, employment opportunities are the prime determinant for these decisions.

And through most of the 1970s, many types of jobs, including manufacturing, grew at a faster rate in nonmetropolitan territory than in metropolitan areas.

These developments allowed more people to stay in or move to small towns in rural locations. Now in the early 1980s, however, many employment opportunities in rural areas have declined, particularly around the time of the recessions in 1979 to 1980, and 1980 to 1982.

In the future, population growth in rural and urban settings may depend strongly on the degree to which the local economy is specialized in activities that are competitive in international commerce.

As our economy has become more internationalized, the growth or decline of individual places has also become internationalized.

Population growth in rural settings is also affected by events like the drought. It certainly does not make it easier to earn a living in rural America.

I will conclude then by saying that we continue to see the sprawl of small towns as they spread out into the countryside. I want to emphasize that farm residents accounts for only about 10 per cent of the nation's rural population.

What happens to the farm population depends not only on conditions in agriculture but by opportunities for members of farm families to supplement their income with off-farm employment.

That concludes my statement and I will be glad to address any questions.

[The prepared statement of Dr. Long follows:]

Larry Long

Center for Demographic Studies

U. S. Bureau of the Census

Thank you for the opportunity to testify before you today. I will identify some major trends in population growth in metropolitan and nonmetropolitan settings. I will focus on some reasons why rural and small-town growth surged in the 1970s and has fallen off in the 1980s. Finally, I will address some implications of what is happening to the geography of America's population, emphasizing that the distribution of the U.S. population in urban and rural settings may be becoming more sensitive to international flows of people and capital.

A major demographic surprise of the 1970s was a surge of population growth in many parts of rural and small-town America. As more of these locations grew, many metropolitan areas experienced slowing population growth or no growth at all. The result was that population in nonmetropolitan territory in the aggregate began to grow faster than the metropolitan population. Unprecedented and unforeseen, this new trend seemed to signal a peaking of urbanization and a shift of population toward more rural settings and rural lifestyles. It suggested a revitalization of many rural areas, giving them a broader demographic base, a firmer economic footing, and a brighter future. These developments appeared to benefit the people who lived in rural locations or who moved to. What was happening

was described in many ways: a nonmetropolitan "turnaround," "counterurbanization," and even a "rural renaissance."

By the early 1980s, however, the metropolitan population was again growing faster than the nonmetropolitan population. And by the mid-1980s the differential in growth rates was almost as great as it was in the 1960s, when the pace of metropolitanization was at its peak. These reversals were as unforeseen as the onset of the "rural renaissance" in the 1970s. The basic facts are these: metropolitan areas grew in population by about 1.6 percent per year in the 1960s, dropped to 1.0 percent per year in the 1970s, and rose to an annual rate of 1.2 percent by 1986. Nonmetropolitan territory grew by only 0.4 percent per year in the 1960s, rose to 1.3 percent per year in the 1970s, and fell to 0.3 percent by 1986. As measured by the degree to which metropolitan areas are growing faster than the small towns and rural territory, we are almost back to the 1960s.

The long-term and short-term relationship between metropolitan and nonmetropolitan growth rates are given in Figure 1. There have been two long waves of accelerating metropolitanization in the twentieth century. One was underway at the beginning of the century when immigration was fueling many cities and America was becoming an industrial nation with an economy geared toward large-scale manufacturing plants whose scale of operations gave rise to very large cities. Metropolitan growth increasingly exceeded nonmetropolitan growth

from at least 1900 until the Great Depression of the 1930s.

Contrary to popular images, hard times in the 1930s kept more persons in rural areas and sent some previous rural-to-urban migrants back home. In the decade of the Great Depression, metropolitan areas grew only modestly faster than nonmetropolitan territory.

Mobilization for World War II set in motion a new wave of metropolitanization, and from then until the 1960s the population in metropolitan areas increasingly grew faster than the nonmetropolitan population. These were decades of massive rural-to-urban migration of Blacks, but they were also times when American manufacturing dominated world markets and offered steady work at high wages to persons willing to leave small towns and rural locations for industrial centers. During the 1960s the metropolitan population grew almost four times as rapidly as nonmetropolitan territory.

A turnaround toward faster growth of population in nonmetropolitan areas began by 1970 and lasted until 1980 or 1981. Population growth of rural and small-town America at this time was fueled by many demographic groups: young families with children, middle-aged persons, and persons of retirement age. Not contributing to rural growth in the 1970s were Blacks and persons of young-adult age, who continued to migrate to cities.

In the 1980s growth has again increasingly favored the metropolitan sector. By 1986 metropolitan territory was growing about four times as fast as nonmetropolitan territory.

The immediate causes were simply that more people were leaving rural areas to move to cities and fewer people were leaving cities and suburbs for rural or small-town settings.

Growth in rural and small-town settings has slowed in each of the four major regions of the country, as can be seen in Figure 2. In the Northeast, metropolitan areas as a group declined in population during most of the 1970s but are now growing again. In the other three regions, metropolitan area growth has increasingly outpaced growth in the nonmetropolitan sector, due primarily to declining growth of rural areas and small town settings. In the Midwest and the West nonmetropolitan growth has been dropping since about the time of the 1979-80 recession, and in the South, nonmetropolitan growth has been declining since the mid-1970s.

WHAT HAS CHANGED?

Increased immigration is one reason why metropolitan growth has outpaced nonmetropolitan growth in the 1980s. Up to 95 percent of immigrants go to metropolitan areas, and the higher level of immigration beginning in the mid-1970s has increased metropolitan growth rates. Over the long run, metropolitan populations are also increased by the childbearing patterns of immigrants.

But that is not the whole story. Even if there were no immigration, rural growth would still have slowed and

metropolitan growth would have increased. As shown in Table 1, the rate of migration from nonmetropolitan territory to metropolitan areas increased between the mid-1970s and the 1980s. Concomitantly, the rate of migration from metropolitan to nonmetropolitan territory declined. These data exclude movers from abroad, and they show how the migration balance of nonmetropolitan territory shifted from positive in the 1970s to negative in the 1980s (see Table 2).

The reasons for these changes are tied to all of the considerations that enter into migration decisions (including the decision not to move). For most persons, employment opportunities are a prime determinant of these decisions. Through most of the 1970s many types of jobs, including manufacturing, grew at a faster rate in nonmetropolitan territory than in metropolitan areas. These developments allowed more persons to stay in or move to the small towns and rural locations outside metropolitan areas.

By the early 1980s employment opportunities had declined in many rural locations. In the future population growth in rural as well as urban settings may depend strongly on the degree to which their local economies specialize in activities that are competitive in international commerce. As our economy has become more "internationalized," the growth or decline of individual places also becomes internationalized.

Of course, many rural and small-town locations may grow in the 1980s and 1990s for some of the same reasons as they grew

rapidly in the 1970s and earlier. Many rural settings are environmentally attractive and appeal both to employers and employees because of quality-of-life considerations. Other rural settings have developed economies based on recreation, tourism, and retirement. These have become domestic growth industries and are likely to remain so for the foreseeable future.

The growth of population outside metropolitan areas in the 1970s caused many areas to be reclassified as metropolitan. Such reclassifications not only transfer population growth to the metropolitan sector, but they affect eligibility of areas for programs aimed specifically at metropolitan or at rural locations.

THE SUBURBANIZATION OF SMALL TOWNS

Large urban regions are likely to continue to sprawl and push outward, expanding into the rural countryside. In these zones of transition where urban meets rural, land values rise, country roads may become clogged with commuters, formerly rural school districts receive an unexpected influx of students, and lifestyles are modified toward the suburban and exurban. These processes are not new, but they unfold differently wherever they occur. They have constituted a major form of population deconcentration, and they almost always result in demand for more services from local governments.

There is a similar form of population deconcentration that may have received less attention. By the 1970s many small towns clearly removed from metropolitan areas were spreading outward in much the same way that larger cities have suburbanized. Prior to the 1970s population concentration within nonmetropolitan counties was a common pattern. Concentration occurred as these counties emptied of their "surplus" agricultural population as mechanization and an increased scale of agriculture reduced the demand for farm labor. Many persons who left agricultural pursuits moved either to the nearest small town or to larger urban centers. The result was that in many nonmetropolitan counties population became increasingly concentrated in the county seat or largest town.

By the 1970s, however, the population outside of nonmetropolitan towns began to grow faster than the population inside their corporate limits. What was happening was simply that more persons were moving to residences just outside the boundaries of small nonmetropolitan towns and were probably doing so for many of the same reasons that produced suburbs around larger cities. People who live just outside the limits of nonmetropolitan towns are technically rural, for they do not live within the jurisdiction of incorporated places. They remain rural unless annexed, and small towns may be reluctant to annex them if taxes have to be raised in order to extend municipal services.

Whatever one calls this development, it means the growth of

population in locations with vague jurisdictional responsibilities for provision of many services, like fire and police protection, water and sanitation facilities, road construction, and the other amenities that have become part of our normal lifestyle. Persons who live outside but near urban settlements are growing in number and tend to have the same expectations as urbanites regarding the quality of services. Meeting those expectations is a challenge to governments at all levels.

I want to emphasize that most persons who are rural are not engaged in agriculture. Farm residents constitute only about 10 percent of the nation's rural population. The size of the farm population is influenced not only by conditions in agriculture, but also by opportunities for members of farm families to supplement farm income with off-farm employment

CONCLUSION

My comments have had a decidedly rural focus partly because there have been major changes over the last two decades in demographic trends in rural settings. What looked like persistent loss of population in the 1960s turned to growth in many rural locations in the 1970s. Rural growth has slowed in the 1980s and metropolitan growth has increased. Whether we are beginning another long wave of accelerating metropolitanization or whether we may again move toward greater equilibrium in metropolitan and nonmetropolitan growth rates is not clear.

That concludes my statement. I would be happy to answer any questions you have.

Figure 1. RATIO OF POPULATION GROWTH RATE IN METROPOLITAN TERRITORY TO NONMETROPOLITAN GROWTH RATE, FOR DECADES OF THE TWENTIETH CENTURY AND ANNUALLY AFTER 1970

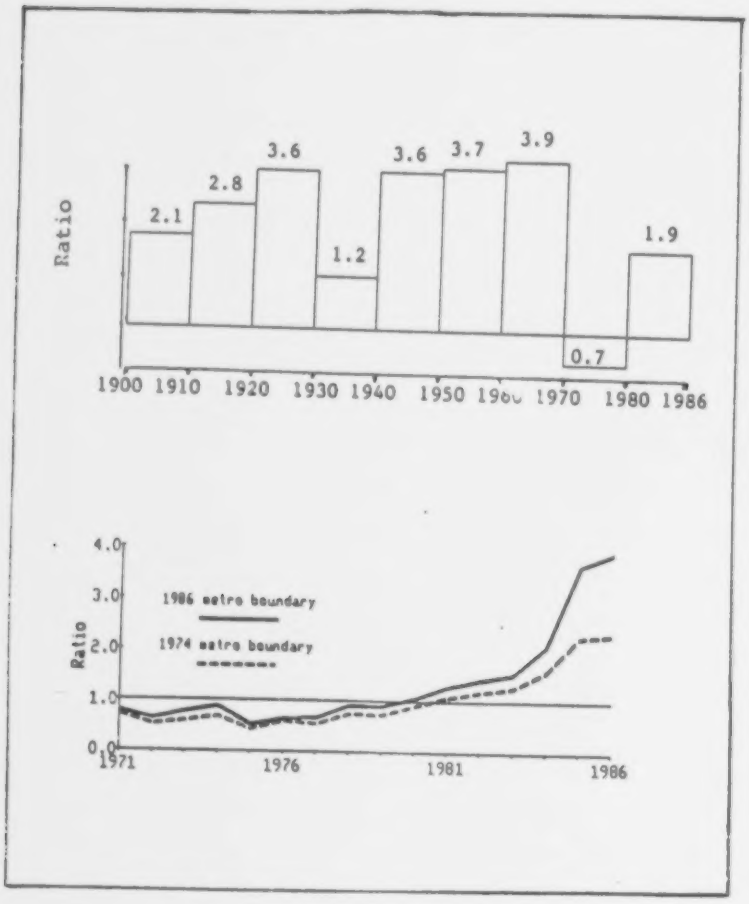


FIGURE 2. AVERAGE ANNUAL GROWTH RATES OF THE METROPOLITAN AND NONMETROPOLITAN SECTORS, BY REGION, FOR INTERCENSAL PERIODS FROM 1900 TO 1986 AND ANNUALLY AFTER 1970.

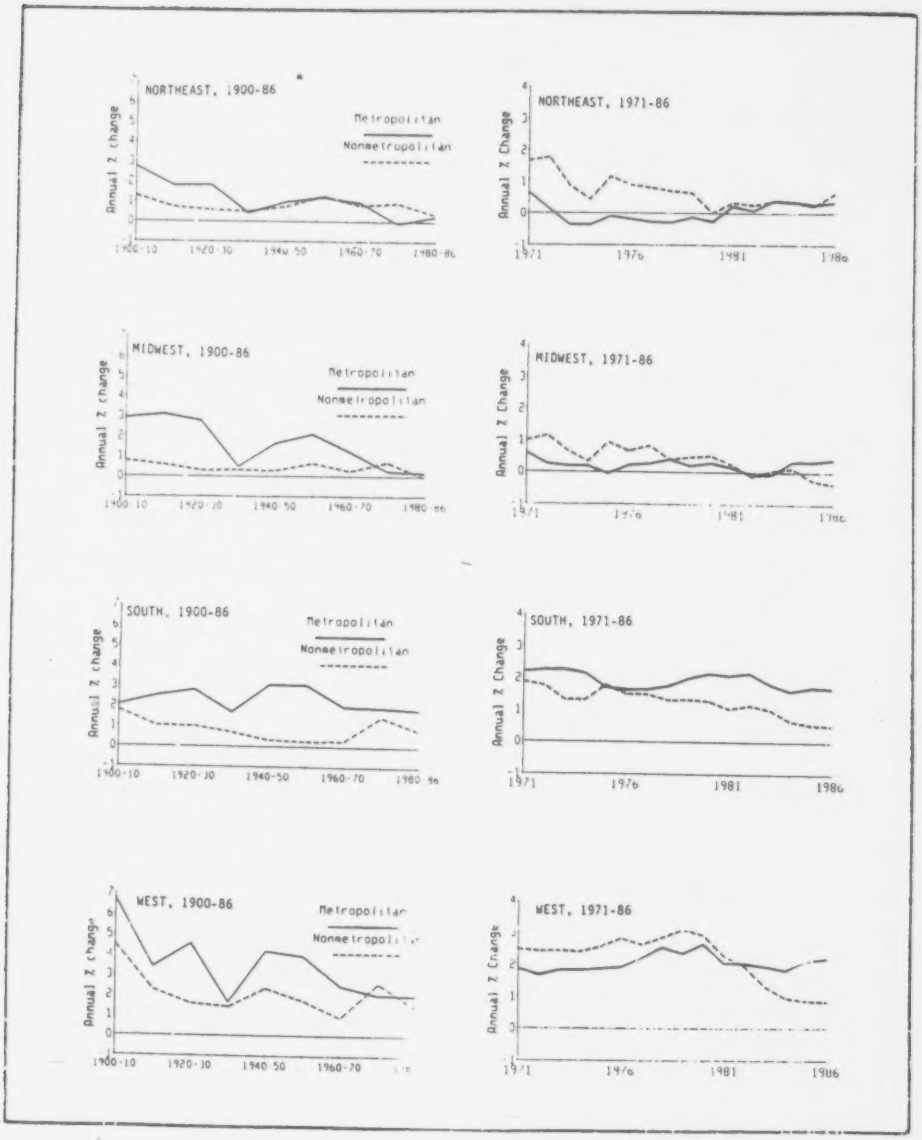


Table 1. CHANGING GROSS FLOWS AND RATES OF MIGRATION FOR CENTRAL CITIES, SUBURBAN TERRITORY, AND NONMETROPOLITAN TERRITORY: 1975-76 TO 1983-84

Persons 1 year old and over

	Movers (000's)			Rates of Moving		
	1975-76	1983-84	Percent Change	1975-76	1983-84	Percent Change
From cities to suburbs	3,499	4,045	+15.6	.061602	.067335	+9.3
From cities to nonmetro	1,106	1,041	-5.9	.019472	.017329	-11.0
From suburbs to cities	1,822	2,300	+26.2	.024078	.026942	+11.9
From suburbs to nonmetro	1,371	1,217	-11.2	.018118	.014256	-21.3
From nonmetro to cities	828	1,037	+25.2	.012823	.014710	+14.7
From nonmetro to suburbs	1,254	1,572	+25.4	.019421	.022299	+14.8

NOTES: Rates of moving in the specified streams are expressed on an "at risk" basis. The base is obtained by taking the end-of-period population, adding outmigrants from the category, and subtracting inmigrants. The rate is the number of outmigrants from the category divided by the base. Computing rates to six decimals is done only for illustrative purposes; large sampling errors are associated with the rates of moving and estimates of percent change. Data are from Current Population Surveys of 1976 and 1984.

Table 2. NET MIGRATION FOR CENTRAL CITIES, THE SUBURBAN BALANCE OF METROPOLITAN AREAS, AND NONMETROPOLITAN TERRITORY: 1975-76 TO 1983-84

Numbers in thousands

	1975-76	1980-81	1981-82	1982-83	1983-84
Central cities	-1,955	-2,236	-2,569	-2,231	-1,749
Suburban territory	+1,560	+1,927	+2,360	+2,254	+2,100
Nonmetropolitan territory	+395	+194	+149	-22	-351

Notes: Data come from March Current Population Surveys which asked where each person 1 year old or over lived on March 1 of the preceding year. Movers from abroad are excluded. Boundaries of metropolitan areas and central cities are as of 1970. Comparable data are not available for 1977-1980.

Mr. SIKORSKI. Thank you, Dr. Long.

Dr. Calvin Beale is Senior Demographer with the Economic Research Service of the U.S.D.A., the U.S. Department of Agriculture and I understand that he is known as the grandfather of American agricultural statistics.

I don't know if a friend or enemy said that about you. [Laughter.]

But you are known for your expertise in the area of statistics and agriculture. And I cannot imagine anyone more qualified to assist the subcommittee in relating the current trends in world demography.

Dr. Beale?

STATEMENT OF CALVIN BEALE, SENIOR DEMOGRAPHER, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. BEALE. Thank you very much, sir. I appreciate that.

Mr. SIKORSKI. Thank you.

Mr. BEALE. Much of what I have presented in my paper has been covered in Larry Long's statement so I will just deal with some points in my paper that are supplemental to his.

I think first that I would like to note that the economic recession we had in the country as a whole from the early part of 1980 was much worse in rural and small-town America than it was in urban America and I do not think that was fully understood at the time.

But perhaps more significantly when the national recovery began in 1983, we did not and we have not had to this date anything like an equal recovery in rural areas. And the unemployment rates in rural areas and small towns which used to be the same or even lower than metropolitan rates continue to be higher than metropolitan rates.

The economic condition of rural areas has simply not gone back to where it was before the recession began. The farm crisis, needless to say, was a major part of the problem. And in addition to the decline in manufacturing, the competition from abroad, and a big loss in mining employment affected your state and many other parts of the country.

The farm population dropped by a million from 6 million people in 1980 to 5 million by 1987. That is a major loss. It averages better than 2.5 per cent a year. Yet I should note that it is not as rapid a loss as we had from the farm population in the 1960s or even the 1970s. In the 1960s we averaged a decline or more like 4.5 per cent a year.

So as severe as the farm crisis has been, it has not had as much of a demographic effect as earlier changes in agriculture did when technology was changing very fast.

Although it may surprise people in the Midwest, because the farm crisis has been very severe here, the loss in farm population has been greatest during the 1980s in the South rather than in the Midwest.

The South has lost 30 per cent of its farm people in just the eight-year period since 1980. That is a region that is not as heavily agricultural as the Midwest, but the farm people there have experienced economic adversity just as severe as we have in this region.

I want to note, too, that the trends in rural population have worsened since 1983, I think because farm people, for example, do not leave after just one or two years of bad crops or low income. It takes a while for them to see that they are failing financially, or for the younger people in the farm towns to realize that business is not going to be good and that they will want to look for work elsewhere.

So the population trends in the agricultural counties have been worse since 1983 than they were from 1980 to 1983.

You might note that I have brought some maps of population change which are at the end of my statement. I will just focus on the counties that are colored black and indicate population decline.

In the 1970s you can see that there was a pattern of decline in the farm belt in general, but elsewhere patterns of rather rapid growth in nonmetropolitan population.

There were about 460 nonmetropolitan counties declining in that decade, which is about a fifth of the total.

In 1980 to 1983, the loss was still evident in the Midwest, though not as much in the Great Plains as there had been because of oil and gas development. But the losses spread back down into the South, into the Pacific Northwest, mining areas of the West, and some of the manufacturing areas of the East. This pattern was worse than the 1970s but still better than the 1960s.

However, if you look at the final map, 1983 to 1986, you will see that the number of declining areas has spread dramatically.

From 1983 to 1986, somewhat over half of all nonmetropolitan counties of the United States were declining in population. Even though the rates of loss were not heavy, the trend was down because more people were leaving than could be offset by the excess of births over deaths.

Losses are widespread in the South again, as they were in the 1960s in the Appalachians and also in many areas of the far West which we had come to take for granted as being rapidly growing areas.

There are some signs, I think, of improvement, at least since about the middle of 1987. Nonmetropolitan manufacturing growth has tipped up, mining growth has tipped up some, although these industries are not back to where they were in the late 1970s.

And farm income has improved. The stock of excess farm products has dropped a good bit through exports. Land values are beginning to turn up, also.

This does not mean that the rural areas are out of the woods. And even if agricultural income increases notably, we are not likely to go back to having the same number of people employed in farming as there were before the large shakeout during the farm crisis years.

There are still many more people in America who say that they would like to live in a rural area or a small town than actually do. So we have a potential in the urban areas, just as we had back in the 1970s, for people to move to smaller communities if they feel that there is sufficient economic opportunity there for them.

In closing, I would like to mention a billboard that I have seen several times outside of the small town of Galesville, Wisconsin,

probably not more than 75 miles from here in western Wisconsin, a place with maybe 1200 or so people.

The sign has three lines. It says, "Welcome to Galesville, the Garden of Eden."

And then the third line says, "Industry invited."

There is an effusive affirmation of the quality of life in the area, but tempered by the dilemma of having to invite the serpent of industry into the Garden if people are to have enough income to remain there.

Thank you, sir.

[The prepared statement of Mr. Beale follows:]

NONMETROPOLITAN POPULATION CHANGE SINCE 1980

Statement by Calvin L. Beale
Senior Demographer
Economic Research Service
U.S. Department of Agriculture
before the
Subcommittee on Census and Population
House Committee on Post Office and Civil Service
June 13, 1988

Mr. Chairman, and members of the Subcommittee, my name is Calvin L. Beale. I am a population analyst with the Economic Research Service, USDA. I appreciate the opportunity to provide a statement on nonmetropolitan population change in the United States since 1980.

The revival of population growth in rural and small town America was one of the most striking social trends of the 1970s. It was also surely one of the most unforeseen and welcome. For years, rural leaders had puzzled over how to retain and attract people to their communities. The need for balanced growth was a constant theme of the Secretary of Agriculture during the 1960s. Suddenly in most parts of the country the long-sought stabilization and growth occurred. Now, in a reversal that seems as equally widespread, we are seeing a return in the 1980's to rural outmigration and population decline. How serious is it? What seems to have brought it about?

Background: For 150 years prior to 1970, the rural or nonmetro population increased more slowly than the urban or metro population in every decade. Urbanization has been the dominant form and trend of settlement in modern society. With advances in technology, fewer and fewer people were needed to provide the farm products, minerals, and timber that had been the major sources of employment in rural areas. Manufacturing, trade, services, and rising wealth focused on the cities. In a dramatic change compressed within 30 years, the U.S. farm population fell from 30.5 million in 1940 to 9.7 million in 1970, a drop of more than two thirds. The rural nonfarm and small town population increased, but that growth was offset and masked by the huge losses of farm people.

By 1970, several forces coincided to change this pattern that had come to seem so permanent. During the 1970s there was less displacement of workers from agriculture and an increase in mining jobs. Manufacturing continued a decentralization begun earlier and smalltown trade and service businesses grew. Thus there were more work opportunities in nonmetro areas, even though wage levels remained below metro standards. In addition, large numbers of people moving to nonmetro communities gave quality-of-life reasons for their decision to move, having developed a favorable opinion of the merits of rural and smalltown life and negative views about the big cities. Related to this was a major increase in the number of people choosing to move to rural areas in retirement. There was also increased residential sprawl into nonmetro counties of people who commuted to work in adjacent metro areas.

The result was a growth of population in nonmetro areas of 15.8 percent from 1970-80, compared with a 9.8 percent metro growth rate. By contrast, in the 1960's metro growth had been quadruple that in nonmetro counties (17.7 vs. 4.4

percent). The renewal of rural and small town growth also appeared elsewhere in advanced nations such as those of northern and western Europe, Canada and Australia.

Nonmetro Growth Slowdown in the 1980's.-- Both the general economic recession and the farm crisis can be said to have begun in 1980. Unemployment rose substantially in that year and farm income fell heavily. As measured by unemployment, the general recession worsened for over 2 years through the winter of 1982-83 and then began to moderate. Farm income fluctuated, but reached a new low in 1983, and the value of farmland dropped steadily after 1981, creating or threatening insolvency for many farm families.

By 1983, it had become clear that the nonmetropolitan population growth of the 1970's was subsiding. From 1980-83, the nonmetro increase (2.7 percent) was once again less than the metro rate (3.5 percent), and the number of nonmetro counties with population decline rose to 720 from a low of 464 in the 1970's. The exceptional rural and small town growth of the previous decade had ended. Yet, the 1980-83 experience still looked like a positive change when compared with the 1950's and 1960's. Only in contrast with the 1970's did it show less growth. There were still more nonmetro counties growing at above average rates than declining, especially in the West and the Southern Plains.

From 1983-86, however, there was a rapid deterioration in the ability of nonmetro communities to retain or attract people, despite the recovery then occurring in the national economy. In this period, nonmetro population increase dropped to 1.3 percent, only half as high as the 1980-83 rate. At the same time, metro growth increased slightly, to 3.6 percent. It is the very low overall growth of nonmetro population from 1983-86 that is the most striking feature of post-1980 trends.

All in all, 1,306 nonmetro counties (55 percent) had fewer residents in 1986 than they did in 1983. The average loss per county was not large, but the occurrence of loss was slightly more widespread than during either the 1960's (53 percent), or 1950's (54 percent), when farm consolidation was at its peak. (Each decade is measured by the metro-nonmetro boundaries then in use).

The spread of decline in the 1980's and the location of affected areas is shown in the accompanying maps. Population decline in the 1970's was essentially limited to farming areas in the Great Plains and western Corn Belt and to the Mississippi Delta. From 1980-83, the losses in the Plains were fewer than in the 1970's, stemming at least in part from oil and gas activity and probably also from the later arrival of the farm crisis into the wheat and range livestock areas than in the Corn Belt. Declines became much more common in the Corn Belt during the early 1980's, however, especially in the eastern part where farming frequently coexists with older manufacturing industries that were hard hit by the recession. Scattered areas of decrease appeared in the West, usually linked to cutbacks in mining or timber work. Elsewhere many new small clusters of declining counties appeared in the Lower South, the Ohio Valley, the Central Appalachians, and in Michigan. But, although decline was more common than it had been, the map of population change in the 1980-83 period was still characterized by vast nonmetro areas with growth more rapid than that of the U.S. as a whole. This was particularly true in the Mountain

West, Oklahoma, Texas, and Florida-- all areas that by and large had grown rapidly in the 1970's.

In contrast, retention of people in nonmetro areas fell dramatically after mid-1983, and counties with any growth at all became a rarity throughout the Great Plains, Corn Belt, and central and northern Appalachia. In Iowa, the quintessential farm State, 84 of 88 nonmetro counties declined in population from 1983 to 1986, as outmovement more than offset any excess of births over deaths. Losses were also common in the Lower South and penetrated some western regions where rapid growth had come to seem normal, such as eastern Utah and western Colorado.

Mining Areas.-- In attempting to understand these changes it is helpful to look at trends in different types of areas. Mining counties in particular shifted from growth to decline in 1983-86. Whereas they had an overall increase of 4.8 percent from 1980-83, which was higher than national growth, they lost 2.0 percent in population during the next 3 years. Total U.S. workers in oil and gas extraction rose by 13 percent from 1980-83, but fell by 26 percent from July 1983 through June 1986, as world oil prices dropped. Employment also fell in the latter period in coal mining and metallic minerals.

Farming Areas.-- Agricultural employment responded only belatedly to the farm crisis. After holding steady in 1980-83, it dropped by 200,000 jobs in 1983-86. In effect, it took several poor years in a row before many people became discouraged enough to leave. Despite a drop in net farm income in 1980 of more than 48 percent from the previous year (inflation-adjusted), it was only in 1982 after 2 more years of low farm income that farm real estate values began to plunge. From 1983 to 1986, the average value per acre of farm real estate dropped by about a fourth, after being slightly higher in 1983 than in 1980.

An extraordinary infusion of Federal price-support loans and payments to producers propped up farm income in the middle part of the decade. However, farmers put exceptional amounts of their income into reducing debt, rather than spending it for consumer or producer needs. Farmers cut their debt (both real estate and other) by $39 billion, (19 percent), from 1983 to 1986, an amount larger than the direct government payments they received. They also reduced their cash expenditures by $16 billion, (14 percent), from 1984-86. This contributed to their income, but had a depressing effect on business in farm towns. The total number of people employed in agricultural counties did not grow at all during 1983-86. Given these trends, it is not surprising that there was a slight overall loss of population from 1983-86, (-.02 percent), in agriculturally-dependent nonmetro counties, after a gain of 1.6 percent from 1980-83. Three-fourths of these counties decreased in population from 1983-86. Where they contained small urban centers they were more likely to hold their own.

The farm population itself (measured as people living on farms) decreased by one sixth from 1980-87, falling from 6.1 million to 5.0 million. This is a substantial loss, averaging 2.6 percent per year. Nevertheless, despite the problems of the farm crisis it is not as rapid a decline as was seen in any of

the three prior decades, when the annual rate of loss ranged from 3.1 percent in the 1970's to 4.6 percent in the 1960's. The recent farm population losses are very real, but not of unprecedented size nationally.

The national decrease since 1980 proves not to be representative of any of the four major regions, however. There has been no drop in the number of farm people in the West at all, and only a moderate decline of 7 percent in the Midwest. But, the farm population dropped by one third in the South and the Northeast just in the seven years, 1980-87, a substantially more rapid loss than in the 1970's. Factors other than the farm crisis help shape these changes, such as different rates in conversion of land to nonfarm uses, further adoption of modern technology, the extent to which people involved in farming live on farms, or the birth rate.

During the 1970's, many young people entered farming, as times were rather good, land values rose, credit was ample, and the large Baby Boom cohorts of farm children came of age. Simultaneously, many older farmers retired. The number of persons under 35 years old who were solely or primarily self employed in agriculture grew from 265,000 in 1970 to 458,000 in 1982. Since then, the number has fallen back to 348,000 in 1987, presumably because of the financial problems encountered by young farmers in the early and midyears of the decade.

Manufacturing Areas.-- Nonmetro manufacturing counties are not more numerous than agricultural counties, but are much more densely settled and contain about two-fifths of the entire nonmetro population. They have an average population of 33,000 people compared with just 11,000 for agricultural counties, and thus have more urbanization and larger labor markets. This provides more stability, and manufacturing counties are less likely than agricultural counties to have rapid rates of population change -- either growth or loss.

Manufacturing was a main source of rural job growth and diversification in the 1960's and 1970's. However, the business recession of 1980-83 was chiefly a goods-producing recession, with national employment in manufacturing falling by 11 percent from the 1979 high to 1982. Total employment in nonmetro manufacturing counties, dropped by 4.4 percent in the same period, a greater loss than in any other type of county. Manufacturing employment began to recover in the spring of 1983, but by spring of 1985 was sagging again (and has never recovered its 1979 level), although construction, trade and service activity continued to move ahead. Recovery and expansion in these other sectors was enough to push up total employment in manufacturing counties by 7 percent from 1982-86. Even so, population growth was somewhat slower in these counties from 1983-86 than from 1980-83 (.95 percent vs. 1.30 percent), although the sag in growth in the latter period was less than in any other class of nonmetro county. Population growth in manufacturing counties for 1983-86 was only about five-eighths as large as the excess of births over deaths, implying an outmigration of about 100,000 people.

Retirement Areas.-- An offset to the pattern of low population growth or loss in areas dependent on farming, mining or manufacturing industries was the growth of retirement areas. There are nearly 500 nonmetro counties that were

significant destinations for older people in the 1970's. They are found in 44 States, although most are concentrated in Florida, the North Country of the Upper Great Lakes, the Ozark-Ouachita area, Texas, the Southwest, and the Far West. Such counties were the most rapidly growing class of nonmetro counties during the "rural turnaround" years of the 1970's and have continued to be so since 1980. Population in these areas grew by 11.3 percent from 1980-86, far above the 6.4 percent rate of the Nation as a whole.

Given the older average age of the population in retirement counties, such growth can be achieved only through substantial immigration, for the birth rate is somewhat low and the death rate somewhat high. From 1980-86, there was an estimated net migration of nearly a million people into nonmetro retirement counties. Not all of them were older people. Many of the retirement areas are also recreation or natural amenity areas that attract younger residents. And, where the growth of older people is large enough, this creates a demand for employment in trade and services that is filled by people of working age.

Retirement counties were probably the least subject to the effects of the recession because the income of a large segment of their population was shielded from unemployment, wage cuts, or other hardships of the business slump. One could hardly contend that the retirement counties have no other economic function than serving older people. Some are also agricultural, have manufacturing, are becoming metropolitanized, or, as noted, are resort areas. All of these functions were in some way affected by the recession. Nevertheless, it seems reasonable to expect that retirement counties would have experienced less of a drop in their population growth in the 1980's than would other types of counties.

This proves to be true for the 1980-86 period as a whole. The annualized growth rate in retirement counties was 38 percent lower in that time than it had been during the 1970's, whereas in all other nonmetro counties the annualized growth rate in the 80's was 67 percent lower than it was in the 1970's. A closer look shows that growth receded at about the same pace in retirement counties in 1980-83 as it did other nonmetro areas. In those years, both retirement counties and other nonmetro counties grew around three-fifths as rapidly per year as they had in the 1970's. However, from 1983-86 nonretirement area growth sank to nearly zero, as there was a total absence of overall growth in mining and farming areas. Growth in the retirement counties, however, remained near its 1980-83 pace. Thus the picture is mixed. Retirement areas had a relative reduction in their growth rate as great as that in other areas in the first 3 years of the decade, but from 1983-86 they were much more successful in maintaining their growth than were other nonmetro counties.

Metropolitan Adjacency and Commuting.-- Another factor often associated with the growth and development of nonmetropolitan counties is proximity to metro areas. Rural communities have a better chance of retaining their population or attracting new residents if they are within commuting range of metro jobs. Consequently, counties adjacent to metro areas have typically had somewhat more rapid population growth than those not adjacent. This was not the case, however, from 1980-83, when the two types of counties had similar overall

rates of change. In that period, many Northern nonmetro counties next to metro areas and containing industrial cities of, say, 20,000 people or more were hurt just as much by the business recession as their metro neighbors were, and had population losses. On the other hand, many remote counties in the Great Plains and West still retained growth acquired during the energy boom of the early '80s. After 1983, however, that boom collapsed. Along with the worsening farm crisis this led to outmigration from many small remote nonmetro counties, while in the North the industrial centers experienced some recovery. As a result, the nonmetro counties adjacent to metro areas resumed their usual status of having higher population growth rates than found in nonadjacent counties.

There are more than 100 nonmetro counties from which 25 percent or more of the employed residents commuted to work in metro central counties in 1980. Such counties had 7.3 percent growth in population from 1980-86 -- faster than the national average and slightly above the metro rate. But, even in these high commuting counties, the growth rate of about 1 percent per year in the 1980's is much lower than the rate of about 2 percent annually that they experienced in the 1970's. Thus although the metropolitan areas of the United States have had a slightly higher rate of increase in the 1980's than in the 1970's, this has not prevented the adjacent nonmetro counties with high metro job commuting from having a major drop in their average population growth rates, whether from diminished vitality in their local economies or a lessening of long-range metro sprawl.

Lower Birth Rate.-- One characteristic of the nonmetro population that makes it more susceptible today to population decline during periods of economic adversity is the smaller surplus of births over deaths. During both the 1950's and 1960's, the birth rate was considerably higher than it has been recently. The nonmetro birth rate averaged better than 20 per 1,000 population during the 1960's with a death rate of less than 10 per 1,000 population, leaving a potential annual population increase of more than 1 percent. Thus, net outmigration from a typical nonmetro area had to exceed 1 percent annually before the population fell.

Since then, a significant decline in childbearing has taken place. The nonmetro birth rate averaged only 15.6 per 1,000 people in 1980-86, a drop of approximately a fourth since the 1960's. The death rate, however, remained about the same throughout the period at 9.6 per 1,000, as gains in life expectancy were counterbalanced by the increased average age of nonmetro people. That increase in average age was partly the product of an influx of retirees. The result was average of just .6 percent natural increase yearly, which would be offset by any net outmigration rate of more than that amount. As a result, many counties and some entire States with only moderate outmigration rates had a slow decline in population from 1980-86, whereas with the higher birth rates of the 1960's they would have grown. Altogether, some 1,517 nonmetro counties had a net outmovement of people from 1980-86. In 555 of these cases, the excess of births over deaths was large enough to offset the migration loss, but in all others, natural increase was too small to do so and the population fell.

Regional Migration.-- The events of 1980-86 brought a net outmigration of 600,000 people from the nonmetro Midwest, with Iowa having the largest exodus-- 103,000. There was, however, an almost equal amount of net immigration to the rural and small town parts of Florida, Texas, California and Arizona combined (570,000). Within the period, major shifts in trend took place in (1) the Mountain West (exclusive of Arizona) where 103,000 inmovement in 1980-83 changed to 87,000 outmovement from 1983-86, and (2) the 3 oil states of Louisiana, Oklahoma, and Texas, where nonmetro inmovement of 263,000 in 1980-83 reversed to a 75,000 outflow in 1983-86. Nonmetro America as a whole still had a small net gain of 100,000 people from inmovement from 1980-86, despite the adverse trends of 1983-86. Metro areas received 4.0 million net inmovement over the same years. It is possible for both types of areas to have inmovement because the country receives immigration from abroad. Despite the well known use of immigrants (especially Mexicans) as farm workers, the great majority of immigrants settle in and around metropolitan cities.

Future Prospects.-- It is possible that the worst is over for nonmetro areas in terms of loss of population associated with the poor economic conditions of the early and mid-1980's. Farm income has now improved considerably, albeit heavily supported by government subsidies. With the debt burden reduced, farmers' net worth has stabilized. The farm export market has expanded, surpluses of major commodities have been reduced, and land values have begun to rise again. This does not presage an increase in the farm population, for there is no need for additional farmers from a production standpoint. But, if improved conditions are sustained, they should lead to resumed local investment and spending, and greater retention of population in farm counties.

Unemployment rates have dropped significantly in nonmetro areas since mid-1987, although they are still well above metro rates, especially when one accounts for part-time workers and discouraged workers (those who want work but are not actively looking for it). The decline in mining and manufacturing employment has ended. Under these circumstances there may be no further drop after 1987 in the overall nonmetro population growth rate or further spread in the occurrence of outright decline.

In any event, the demographic trend in rural and smalltown communities in the 1980's has proved to be as unexpectedly different from that of the 1970's as that decade was different from the 1960's. We learned from the 1970's that there are indeed conditions under which small scale areas can retain their natural increase and also attract new residents. But, we see now that major recessions in production industries can still have widespread and disproportionate effects on the population-supporting capacity of nonmetro counties.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other members of the Subcommittee might have.

Mr. SIKORSKI. Thank you, Doctor.

Commissioner Lani Kawamura.

[Pause]

With a name like Sikorski, I am a little sensitive to do it and I think I mispronounced Barbara Bladin, too.

Commissioner Kawamura is the Commissioner of the State Planning Agency and has a heavy responsibility for charting the future Minnesota, planning for the long haul for this state.

We are sure her knowledge of the entire state will prove valuable to the subcommittee today, and we welcome her testimony.

Good morning.

STATEMENT OF LANI KAWAMURA, COMMISSIONER, MINNESOTA STATE PLANNING AGENCY

Ms. KAWAMURA. Thank you, Mr. Chairman.

I would like to break down, in the interest of time, my testimony into three major parts. One is to look at demographic trends focusing on shifts in population in Minnesota.

Secondly, to focus on economic trends focusing on three indicators: employment, income, and what we believe to be is an important economic indicator, and that is higher education.

Then I will conclude with some suggestions and issues for the long term economic stability.

In terms of population change, we would agree with Mr. Beale in that Minnesota is reflecting the national trend. However, we are showing some significant other kinds of movement.

Our population growth is beginning to accelerate. The national average is at one per cent annually. Minnesota is showing about .8 of one per cent which is the fastest in the Midwest and faster than even some Sun Belt states.

Most of the population growth is occurring in the metropolitan area and the St. Cloud/Rochester corridor. However, in the first part of the decade we were showing a net out-migration and recently we have been showing a net in-migration.

Some of the population shifts that are occurring within the state are occurring around—a growth occurring around what the Planning Agency has coined as regional centers.

Outside the Twin Cities Metropolitan Area we have defined or identified 11 regional centers that show solid economic growth. One indicator of this is in retail sales and we have defined 11 centers which show annual retail sales of $150 million or more.

But each one of these centers—and I have a map with 11 stars on them in my information to you—each one of these centers shows some growth in population, total sales, retail sales as I indicated earlier, and employment.

So what we are seeing is not only people moving to the major metropolitan area and the corridor St. Cloud and Rochester; but some growth in these 11 regional centers as well.

In terms of employment and unemployment, Minnesota I think has been very good in this respect. Our unemployment rate in 1983 was 8.2 per cent.

As of April of 1988, our most current figures, we are showing 3.8 per cent rate of unemployment with three per cent showing in the seven county metro area.

In the past 12 months from April 1987 to April 1988, Minnesota has created 110,000 new jobs which is over 2000 per week.

Our employment rate is improving in all geographic regions of the state and increasing in all areas of employment from manufacturing, mining, services and so on and so forth.

In regards to income, the Planning Agency put out a trend report recently that showed from 1983 to 1986 that per capita personal income of Minnesotans increased by 22.4 per cent more rapidly than the national average of 19.6 per cent.

We rank 14th nationally in the United States in per capita income or per capita personal income. Those income growths are showing again in all geographic regions of the state.

And in the past year, the most significant increase compared to all other regions of the state showed in the southwestern portion of Minnesota which is our farming region.

Two other indicators of economic health are unemployment insurance case load and AFDC case loads. In regards to UI or unemployment insurance cases, in the past two years Minnesota has shown a decline in cases for unemployment insurance or applicants for unemployment insurance, reducing our case loads by 16 per cent or 12,000 cases.

In 1983, parenthetically our unemployment insurance fund showed a deficit of $430 million. And as you understand and you all well know, that means that our small businesses are attacked by penalty from the Federal Government.

Today the fund has a surplus of $175 million. We rank 21st in the country in regards to our unemployment insurance tax.

The number of AFDC unemployed parents cases has also stabilized after fairly significant growth in the early 1980s.

Enrollment in higher education has increased dramatically. One assumption we often make is that when economic conditions are bad, more people go back to school, get more training.

Certain factors showing good economic growth in Minnesota in the past several years have indicated that enrollment in higher education still increases with both nontraditional students and more high school students going on to college.

Despite what we consider to be strong economic health indicators in Minnesota, we are still looking at some issues. One is those counties which show double digit unemployment.

As a statewide issue, we think that training/retraining needs to be concentrated on so that we can allow some opportunities for our shifting work force as has been indicated earlier in testimony.

People move to where there are jobs. They need to be better trained for that movement. In terms of income, lower income families while are showing some increases are not increasing as fast as other income sectors or segments of our population.

And this brings issues to the forefront such as affordable housing, some homeless issues, et cetera.

One, I think, area of the state in which, and the final area of the state, which we think shows a very important—we must concentrate on—is diversifying our economy and later on you will hear

testimony from Terry Montgomery in regards to major state efforts for diversifying our economy.

New product development in rural areas, new manufacturing, and so on and so forth.

We need help from the Federal Government in this area, leveraging state money and of course local strategic planning.

[The prepared statement of Ms. Kawamura follows. Various charts submitted with the statement were retained in the official hearing file.]

90-255 0 - 88 - 2

STATEMENT OF LANI KAWAMURA, COMMISSIONER OF THE

MINNESOTA STATE PLANNING AGENCY

Mr. Chairman, members of the committee, my name is Lani Kawamura. I am the Commissioner of the Minnesota State Planning Agency.

My testimony today will focus on some of the overall trends in Minnesota, its people and economy. I will divide the testimony into three sections.

In the first section, I will describe some aspects of the economic recovery in Minnesota since 1983.

In the second part, I will describe some of the ongoing concerns for the state's economy focusing on the degree to which all areas and peoples of the state are participating in and benefiting from the economic recovery.

I will conclude with some policy interests especially with the desire for cooperation between the state of Minnesota and departments of the federal government in forging new directions in research to improve the competitiveness of the Minnesota and national economies resulting in a brighter future and richer economy for all.

First, some overall trends.

POPULATION CHANGE

Minnesota's population growth is beginning to accelerate after very slow growth earlier in the decade. Though still slower than the national growth rate of one percent per year, Minnesota's population growth rate of 0.8 percent per year is the fastest in the midwest and faster even than some sunbelt states such as Texas, Louisiana, and Oklahoma.

Most of the population growth, however, is located in the Twin Cities, St. Cloud, and Rochester metropolitan areas. Indeed, if we look at Minnesota and the four surrounding states, these three metropolitan areas represent the only areas of substantial population gain, and most of the counties in the area are actually declining in population.

1983, represents a watershed year nationally in population growth in rural areas. Minnesota is no exception. After nearly a decade and a half of unusually solid population growth in rural areas, populations began to decline after 1983. Early evidence for 1987 suggests a slowing in the rate of decline for rural farm areas, though its is really too early to determine if this is a trend.

REGIONAL CENTERS

Outside the Twin Cities metropolitan area, 11 regional centers have show solid economic growth. These centers are defined as cities with annual retail sales of $150 million or more.

In particular, they have shown growth as retail sales centers and employment centers, providing a focus for broadbased economic development.

EMPLOYMENT AND UNEMPLOYMENT

Employment in Minnesota has increased by nearly 110,000 jobs from April 1987 to April 1988.

Unemployment rate has declined from the 1983 level of 8.2 percent to the April 1988 level of 3.8 percent and shows signs of continuing its decline. The national unemployment rate for April 1988 was 5.3 percent.

Since 1983, unemployment rates have fallen in all areas of the state including the Twin Cities, central, northeast, southeast, and west.

Employment is increasing in durables manufacturing, food and kindred manufacturing, printing and publishing, mining, wholesale and retail trade, finance, insurance, real estate, services especially business and health services, and education services.

INCOME

From 1983 to 1986, the per capita personal income of Minnesotan's increased by 22.4 percent; more rapid than the national increase of 19.6 percent. In 1986, Minnesota ranked 14th nationally in per capita personal income.

In 1986, the Minnesota median family income of married couple families was $30,547, an increase of nearly $4,400 over 1983.

Perhaps more important, since 1983 median family incomes have increased faster than inflation, after losing to inflation in the late 1970s and early 1980s. Family purchasing power is beginning to increase again after several years of decline.

Median incomes in southwestern Minnesota increased sharply between 1985-86 a trend that contrasted sharply with the previous year. The 1985-86 changes can largely be attributed to an improved agricultural economy.

AFDC AND UNEMPLOYMENT INSURANCE CASELOADS

Average weekly claims for unemployment insurance have declined by nearly 12,000 cases since 1983.

In 1983 the unemployment insurance fund showed a deficit of $430 million. Today the fund has a surplus of $175 million.

The number of AFDC--unemployed parent cases, a category strongly related to economic conditions, has stabilized at more than 7,500 after a meteoric rise in the early 1980s, reaching a high point in 1984 at 7,629 cases from only 1,711 in 1980.

SOME CONCERNS REMAIN

Despite the strong growth and prosperity Minnesota is experiencing, some concerns remain. Not everyone is sharing in this prosperity.

UNEMPLOYMENT

Despite the declines in unemployment statewide, more than 100,000 Minnesotans remain unemployed.

While unemployment rates in some areas have fallen below four percent, and some as low as three percent, some areas, especially in northern Minnesota remain in the two digit range. Counties such as Clearwater at 20.2 percent, Red Lake at 18.1 percent, and Marshall at 17.2 percent have not shared fully in the economic recovery. Two digit unemployment rates are simply unacceptable.

INCOME

Since 1979 incomes of lower income families and in nonmetropolitan areas have increased much slower than those of upper income families and in metropolitan areas.

In 1979, the highest income county in the state had a median family income 2.45 times the lowest income county. In 1986, this difference had increased to 2.74 times. The dollar difference increased from $15,284 to $25,397.

The increasing inequities in incomes is a national phenomenon reflected in Minnesota.

POVERTY

Nationally, the poverty rate of 14 percent in 1985 is substantially above the 1979 level of 11.7 percent. Poverty among children remains at one in five--a national disgrace.

The problem for Minnesota, and most other states, is that we know virtually nothing about poverty and poverty rates within the state. National surveys have proven inadequate for state and substate analysis and even those are coming under severe budget pressures. Program planning and development in the absence of good information is difficult, leading to greater costs and poorer results. The federal government must live up to its responsibility to develop adequate information to base programs on to lower the poverty rate especially among children.

SPECIAL ECONOMIC CONDITIONS

Many of the nonmetropolitan areas of the state are still subject to special and localized economic conditions which can all-too-quickly reverse the fragile economic recovery. We are especially concerned about drought conditions in Minnesota, but plant closings, industry related downturns and other similar occurrences can snuff-out the prosperity of a particular area. Economic development must be diversified.

ENROLLMENT IN HIGHER EDUCATION

Minnesota has shown especially strong growth in enrollments in higher education. From 1986 to 1987, enrollments in Minnesota increased by 10.9 percent, ranking third nationally in growth.

In 1987, Minnesota ranked 4th nationally in the number of full-time students per 1,000 population, having increased from 13th in 1978.

These increases in enrollments are occurring at a time when high school enrollments are declining due to fewer teenagers resulting from low births in the early 1970's.

The primary reason for the continued strong growth in enrollments is the entry of "non-traditional" students; that is older students seeking to improve their educational and skill levels. Of course, there is a high percentage of traditional high school graduates attending post-secondary institutions also. The Higher Education Coordinating Board now estimates that 90 percent attended higher education institutions. The concept of education being a lifetime process is becoming a reality in Minnesota.

CONCLUDING POLICY THOUGHTS

The State of Minnesota firmly believes that the base of the economic recovery can be strengthened, broadened and the competitive position improved through a partnership between the state government of Minnesota and the various departments and agencies of the federal government. This partnership should be directed towards improving our research base to increase productivity, develop new products, and ensure efficient and safe use of our natural resources. In addition, this partnership should focus on increasing the quantity, quality, and usefulness of federal and state information to improve research capabilities and provide a stronger basis to make informed decisions. I note that Minnesota does not rank highly (35th in 1985) in the receipt of federal funds on a per capita basis. I also note that through the Minnesota/U.S. Department of Commerce Initiative and the Business and Industry Data Center program with the Department of Commerce, that department has made a commitment, though little funds are involved. These initiatives should be supported with words of praise and budget and other departments and agencies encouraged to show similar enlightenment.

FTE PUBLIC HIGHER EDUCATION STUDENTS PER 1,000 POPULATION

States	1977-8 Rate	Rank	1985-6 Rate	Rank	1986-7 Rate	Rank	Change 85-86	Change 77-86
North Dakota	41.5	4	45.4	1	44.3	1	-2.4%	6.7%
Nebraska	31.3	25	34.0	15	43.6	2	28.2%	39.3%
Wisconsin	36.8	10	39.6	2	39.5	3	-0.3%	7.3%
MINNESOTA	**36.3**	**13**	**37.6**	**4**	**38.3**	**4**	**1.9%**	**5.5%**
North Carolina	34.4	18	38.4	3	38.2	5	-0.5%	11.0%
Kansas	37.7	7	37.0	6	37.6	6	1.6%	-0.3%
Arizona	53.6	1	36.5	7	37.3	7	2.2%	-30.4%
California	46.4	2	37.1	5	36.7	8	-1.1%	-20.9%
Colorado	43.5	3	35.1	9	35.3	9	0.6%	-18.9%
Michigan	32.7	21	34.3	13	35.3	9	2.9%	8.0%
United States	31.0		29.6		29.6		0.0%	-4.5%

MINNESOTA CONTINUES TO IMPROVE IN THE NUMBER OF STUDENTS ENROLLED IN PUBLIC INSTITUTIONS OF HIGHER EDUCATION COMPARED TO THE POPULATION, WHILE FORMER LEADERS DROP OFF DRAMATICALLY.

MINNESOTA, AS WELL AS SEVERAL OTHER MIDWESTERN STATES, FAR OUTPACES THE NATION AS A WHOLE.

(Source: Research Associates of Washington)

FLOW OF FEDERAL FUNDS TO STATES, 1985

state	federal funds (billions)	rank	federal funds (per cap.)	rank
ALASKA	2.5	46	4,798.46	1
MARYLAND	20.8	13	4,735.88	2
VIRGINIA	27.0	8	4,731.86	3
NEW MEXICO	6.6	34	4,551.72	4
MISSOURI	22.4	10	4,454.17	5
HAWAII	4.6	38	4,364.33	6
CONNECTICUT	13.5	19	4,253.31	7
MASSACHUSETTS	23.2	9	3,984.88	8
NORTH DAKOTA	2.7	45	3,941.61	9
WASHINGTON	16.7	15	3,787.71	10
MINNESOTA	**11.8**	**22**	**2,814.21**	**35**
UNITED STATES	781.2		3,272.18	

MINNESOTA RECEIVES FAR LESS THAN ITS POPULATION'S SHARE OF FEDERAL DOLLARS, ALMOST $500 PER PERSON LESS THAN THE AVERAGE FOR ALL STATES.

DISCOUNTING FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS, PER CAPITA SHARE FALLS OFF EVEN FURTHER.

(Source: U.S. Bureau of the Census)

Mr. SIKORSKI. Thank you.

We have known Dr. Maki for some time and the subcommittee appreciates his presence today.

Thank you for preparing such extensive and documented testimony. And from your written comments which will be included full in the record, it is clear that you have done a lot of work and continued your high standards in assisting the subcommittee.

Minnesota is fortunate to have someone of your caliber and your expertise concerned about the future of the state and we thank you for being here.

STATEMENT OF DR. WILBUR MAKI, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS AT THE UNIVERSITY OF MINNESOTA

Mr. MAKI. Thank you, Congressman Sikorski.

I think I will just terminate my remarks at this point. [Laughter.]

It is going to go down hill from here.

But anyway, my prepared comments address the public implications of business and household location and relocation in rural and metropolitan areas.

Directly involved in the public implications are state and local governments and the citizens—individual and corporate—they serve.

Public officials here in St. Paul have ready examples of new demands for infrastructure and services and the growing fiscal pressures they impose on already strained state and local governments and their constituencies.

Now I will summarize, after these brief introductions, the thrust of these comments. But may I add something in support of what has been said already.

Minnesotans have suffered disproportionately, not only from the federal fiscal deficit and its impact on export producing industries, but also from the budget slashing in statistical services.

While our metropolitan region recovered from the 1980/1982 recessions on schedule, rural Minnesota remained in it for another three years.

We had plenty of theories but very few statistics were available to show that not only agriculture but manufacturing—a far more important source of basic jobs and dollars in Minnesota than any other industry group—was also devastated by high interest rates and the high foreign exchange value of the U.S. dollar.

Old theories about sources of Minnesota's economic livelihood were no longer sufficient to portray fuily and accurately the many dimensions of Minnesota's current economic plight.

In short, the past 25 years of growth and change in U.S. and world economies has meant tremendous shifts in Minnesota's industry employment.

Minnesota nonfarm industry nearly doubled in employment in the period from 1959 to 1985 as nonfarm wage and salary jobs increased from 932 thousand to 1.9 million.

Nonfarm self-employed also grew from less than 100 thousand to more than 312 thousand.

Meanwhile, total farm jobs—full-time and part-time—dropped from more than 200 thousand to less than 135 thousand.

While the Minnesota economy expanded and diversified, it also became increasingly sensitive to the general business cycle.

In the last two recessions, Minnesota nonagricultural wage and salary employment dropped 5.6 per cent from its fourth quarter 1979 peak of about 1.8 million to its fourth quarter, 1982 trough of less than 1.7 million.

During the same period, U.S. employment dropped 1.2 per cent or about one-fifth of the Minnesota percentage drop. The 1980 and 1981/1982 recessions aborted two decades of state economic growth when employment and also income per capita in Minnesota gained in U.S. share.

However, the loss of domestic and foreign markets in the post-1982 period, precipitated by the federal fiscal deficit and the high foreign exchange value of the United States dollar, was an even greater disaster than the two recessions as measured by the loss of U.S. employment share.

Rural-urban population shifts are not the cause of the decline in employment share but its manifestation.

Rural-urban population shifts are triggered by the impact of farm and service system consolidation and mine and manufacturing plant closure or employment.

Farm consolidation and plant closures lead to service system consolidation as farm and other rural households decline in total number and as farm and factory operators expand their procurement areas for production inputs, thus reducing local business sales.

Together, farm, factory and service system consolidation or closure leads to fewer local jobs in many rural communities and ultimately to more people leaving with few, if any, returning.

Relocation and also restructuring of traditional goods-producing industries—agriculture, mining and manufacturing—is changing Minnesota's rural/urban balance.

Much of the traditional goods-producing industries which now experience intense world-scale price competition are in rural areas.

Services-producing industries, particularly high-order professional, business and related manufacturing services that compete in varying degree on a non-price basis are concentrated in the seven-county Twin Cities Metropolitan Region and, to a lesser extent, in the four metropolitan centers of Fargo-Moorhead, Duluth-Superior, St. Cloud and Rochester.

Despite the shift to services, the goods-producing industries account for a critical part of the economy of Minnesota's rural regions.

They also experience most severely the consequences of world-scale economic restructuring and of general business cycle fluctuations.

Above-average labor earnings in manufacturing, 50 per cent above the overall average, enhances its dominant role in the Minnesota economy.

If the Minnesota economy is highly dependent on manufacturing for its basic jobs, it is even more dependent on manufacturing for its labor earnings.

Manufacturing now generates more than 50 per cent of Minnesota's basic dollars, a role attributed to agriculture, mining and related manufacturing in 1950.

Manufacturing is projected to account for two-thirds of the basic dollars in 2000. While directly or indirectly accounting for most of Minnesota's basic job and basic earnings, it also represents a source of increasing income instability for households, businesses and governments.

State legislatures are now facing the reality of budget crises triggered in part by the economic restructuring precipitated by increasingly intense world-scale product price and quality competition.

This competition directly affects all goods-producing industries and many services-producing industries heretofore protected by government regulation and/or proximity to local customers.

Residents in declining rural areas now experience the adverse effects of this new economic order as do residents of growing metropolitan counties, although both gain the benefits of economic growth but in varying degree.

Not surprisingly, both the private sector and the public sector of metropolitan regions challenge more strongly than before the efficiency, the efficacy and even the fairness of state government transfers from financially distressed but growing metropolitan counties to financially distressed and economically-lagging rural counties.

The bottom line of the new fiscal crises of state and local governments is the challenge of improving the productivity of state and local government resource use in public schools, publicly funded hospitals and clinics, publicly-supported post-secondary education institutions, public administration and all other publicly-maintained community and regional infrastructure and service delivery.

That is what I concentrate on in the prepared remarks.

Thank you.

[The prepared statement of Dr. Maki follows:]

STATE-LOCAL FISCAL EFFECTS OF RURAL-URBAN POPULATION SHIFTS

Statement by Wilbur R. Maki, Department of Agricultural and Applied Economics, University of Minnesota, before the Subcommittee on Census and Population, House Committee on Post Office and Civil Service, MN State Capitol, St. Paul, MN, June 13, 1988

Mr. Chairman, members of the Subcommittee, my name is Wilbur Maki. I am a professor in regional economics at the University of Minnesota. I appreciate the opportunity to provide a statement on state-local fiscal effects of rural-urban population shifts in Minnesota.

My testimony today focuses on the public implications of business and household location and relocation in rural and metropolitan areas that result from population shifts. Directly involved in the public implications are state and local governments and the citizens--individual and corporate--they serve. Public officials here in St. Paul have ready examples of new demands for infrastructure and services and the growing fiscal pressures they impose on already strained state and local governments and their constituencies.

Minnesotans have suffered disproportionately from the federal fiscal deficit and its impact on export-producing industries. While our Metropolitan Region recovered from the 1980-82 recessions along with the rest of nation, rural Minnesota remained in it for another three years. Very few statistics were available to show that not only agriculture but manufacturing--a far more important source of basic jobs and dollars in Minnesota than any other industry group--was also devastated by high interest rates and the high foreign exchange value of the US dollar.

The past 25 years of growth and change in U.S. and world economies has meant tremendous shifts in Minnesota industry employment.

- Minnesota nonfarm industry nearly doubled in employment in the period from 1959 to 1985 as nonfarm wage and salary jobs increased from 932 thousand to 1.9 million.

- Nonfarm self-employed also grew from less than 100 thousand to more than 312 thousand.

- Meanwhile, total farm jobs--full-time and part-time--dropped from more than 200 thousand to less than 135 thousand.

While the Minnesota economy expanded and diversified, it also became increasingly sensitive to the general business cycle. In the last two recessions, Minnesota nonagricultural wage and salary employment dropped 5.6 percent from its fourth quarter, 1979 peak of 1,787.1 thousand to its fourth quarter, 1982 trough of 1,686.4 thousand. During the same period, U.S. employment dropped 1.2 percent--from 90.467 million to 88.693 million, or about one-fifth the the Minnesota percentage drop.

On an average annual basis, total nonagricultural wage and salary employment increased from 1479.4 thousand in 1975 to 1775.9 thousand in 1979 and 1903.8 thousand in 1987 with projected growth to 2052.3 in 1990. Total employment tracked the general business cycle with the Minnesota share of total US employment increasing in the 1975-79 recovery and decreasing in the 1979-82 recession and increasing only in the first several years of the post-1982 recovery. The period since 1986 is characterized by a "flat" US employment share of about 1.9 percent, as shown below:

Year	Total Employment (thousand)	Increase from 1975 (thousand)	Employment Share (percent)
1975 (trough)	1479.4	0	1.93
1979 (peak)	1775.9	296.5	1.97
1982 (trough)	1734.2	254.8	1.93
1984 (recovery)	1837.2	357.8	1.94
1986 (recovery)	1903.8	424.4	1.90
1990 (recovery)	2052.3	572.9	1.90

Thus, the average employment increase per week ranged from 1425 in the 1975-79 period to 991 in the 1982-84 period, 634 in the 1984-86 period, and a projected 714 in the 1986-90 period.

The 1980 and 1981-82 recessions aborted two decades of state economic growth when employment and, also, income per capita in Minnesota gained in US share. However, the loss of domestic and foreign markets in the post-1982 period that was precipitated by the federal fiscal deficit and the high foreign exchange value of the US dollar, was an even greater disaster than the two recessions as measured by the loss of US employment share.

Rural-urban population shifts

Rural-urban population shifts are not the cause of the decline in employment share but its manifestation. The population shifts are triggered by the impact of farm and service system consolidation and mine and manufacturing plant closure on employment. Farm consolidation and plant closures are responses to competitive pressures emanating from world-scale competition in all commodity markets. Service system consolidation is a response to reduced service loads and service system budget constraints. Farm consolidation and plant closures lead to service system consolidation as farm and other rural households decline in total number and as farm and factory operators expand their procurement area for production inputs, thus reducing local business sales. Together, farm, factory, mine and service system consolidation or closure leads to fewer local jobs in many rural communities and utimately to more people leaving, with few, if any, returning.

Meanwhile, household and business relocation in the principal metropolitan areas is occurring from central city to its suburbs and then back to the central city and again back to new outlying suburbs. Most migrants from declining rural areas are headed to the growing metropolitan areas. In Minnesota, the rural-to-metropolitan migration may occur in several stages with a nearby post-secondary education institution often providing the first destination. Above-average job and income growth in the metropolitan area,

however, continues to serve as a strong incentive for the rural migrant to ultimately reach a metropolitan area destination.

Relocation and, also, restructuring of traditional goods-producing industries--agriculture, mining, and manufacturing--is changing Minnesota's rural-urban balance. Much of the traditional goods-producing industries, which now experience intense world-scale price competition, are in rural areas--particularly in the four western and two southern substate regions. These six regions are designated as the West Economic Region (1, 4, 6W and 8) and Southeast Economic Region (9 and 10).

Services-producing industries, particularly high-order professional, business and related manufacturing services that compete, in varying degree, on a non-price basis, are concentrated in the seven-county Twin Cities Metropolitan Region and, to a lesser extent, in the four metropolitan centers (Fargo-Moorhead, Duluth-Superior, St. Cloud and Rochester) in four (3, 4, 7W and 10) of the substate regions. The four substate regions are part of the West, Northeast and Southeast Economic Regions.

Despite the shift to services, the goods-producing industries nonetheless account for a critical part of the economy of Minnesota's rural regions. They also experience most severely the consequences of world-scale economic restructuring and of general business cycle fluctuations. In the 1975-79 recovery period, for example, goods-producing industry employment in Minnesota increased by 24 percent while employment in services-producing industries (transportation, communications, utilities, wholesale and retail trade, private services and government) increased by 19 percent. Minnesota outpaced U.S. goods-producing employment growth by 50 percent. These patterns were reversed, however, in the 1982-87 period. In fact, total goods-producing employment declined from 1979 to 1983 in both Minnesota and the US as shown in

the top half of Figure 1.

Following short-lived increases from 1983 to 1985 for the US and from 1983 to 1984 for Minnesota, goods-producing employment levels again declined before starting their most recent rise in 1986 and 1987. The most recent percentage increase is larger for Minnesota than the US as a whole because of the above-average concentration of export-producing industries in Minnesota.

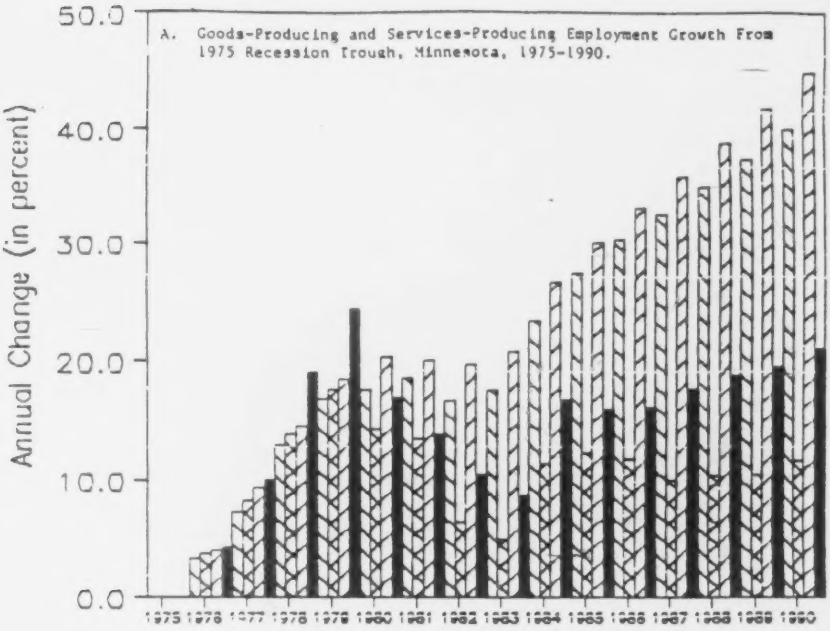
The growth relationship between the nonagricultural goods-producing employment, namely, mining, construction and manufacturing, and services-producing employment differed sharply in the two recovery periods--1975 to 1979 and 1982 to 1987 and, indeed, to projected 1990 (as shown in the lower half of Figure 1). During the 1975-79 recovery period, Minnesota industries, even more so than US industries, benefitted from a foreign-trade boom. However, the sharp decline in US foreign trade in the post-1982 recovery period impacted adversely upon the export-oriented goods-producing industries, which resulted in a reversal of the two growth rates for both Minnesota and US industries. In the post-1982 period, however, the growth in Minnesota services-producing industries lagged behind the growth of US service-producing industries, despite the lesser growth of the U.S. goods-producing industries--again, a reversal of the 1975-79 industry growth patterns. Minnesotans simply fail to get their full share of the GNP growth resulting from current US budget deficits.

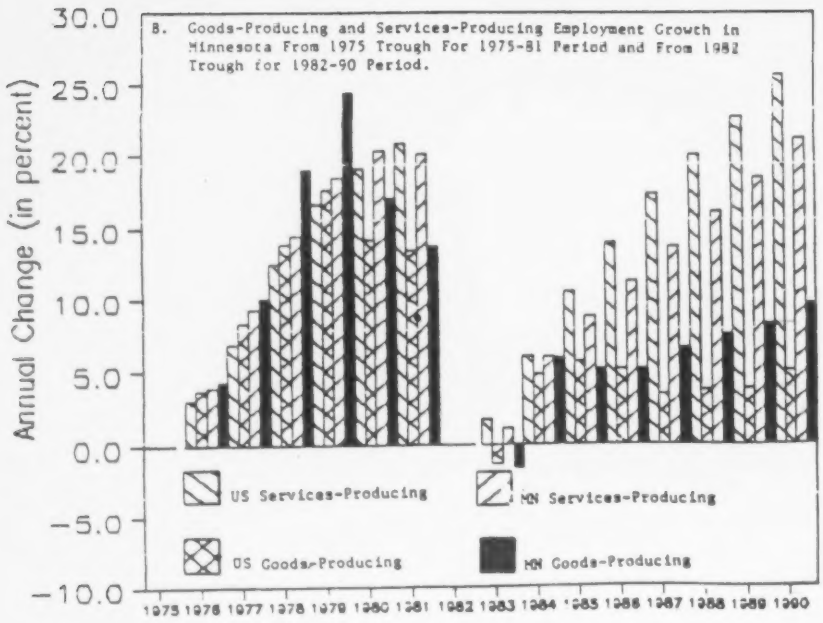
State-local fiscal effects

Industry relocation and restructuring and related rural-urban population shifts that followed the globalization of regional economies impose new and added pressures on state-local fiscal systems. New infrastructure must be built in the growing areas while the lagging areas continue to maintain the same facilities and services despite the population decline. Residents of

Figure 1.

Total nonagricultural goods-producing employment increased sharply during the 1975-79 recovery period in both Minnesota and the US but in the post-1982 recovery, services-producing employment increased more sharply--a consequence of declining Minnesota and US foreign trade opportunities and manufacturing employment.


A. Goods-Producing and Services-Producing Employment Growth From 1975 Recession Trough, Minnesota, 1975-1990.
Annual Change (in percent)
50.0
40.0
30.0
20.0
10.0
0.0
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990


8. Goods-Producing and Services-Producing Employment Growth in Minnesota From 1975 Trough For 1975-81 Period and From 1982 Trough for 1982-90 Period.
Annual Change (in percent)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
US Services-Producing
MN Services-Producing
US Goods-Producing
MN Goods-Producing
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990

both areas thus bear the added financial burden of population and business relocation.

While state and local governments carry the added costs of population and business relocation, these costs are eventually borne by local businesses and households. A declining economic base in heavily farm-dependent and mining-dependent counties quickly reduces the revenue-generating capacity of local governments to support local schools and other public institutions without transfer payments from outside.

State legislatures are now facing the reality of a budget crisis, triggered, in part, by the economic restructuring percipitated by increasingly intense world-scale product price and quality competition. This competition directly affects all goods-producing industries and many services-producing industries heretofore protected by government regulation and/or proximity to local customers. Residents in declining rural counties now experience the adverse effects of this new economic order as do residents of growing metropolitan counties, although both gain the benefits of economic growth in varying degree.

To assure the continuity of the newly-won benefits of economic restructuring, state and local governments invest heavily in essential community infrastructure--physical facilities and economic and social services. Not surprisingly, both the private sector and the public sector of metropolitan regions challenge, more strongly than ever before, the efficiency and efficacy and even the fairness of state government transfers from financially distressed, but growing metropolitan counties to financially distressed and economically-lagging rural counties.

The bottom line of the new fiscal crises of state and local governments is the challenge of improving the productivity of state and government resource

use--in public schools, publically-funded hospitals and clinics, publically-supported post-secondary education institutions, public administration and all other publically-maintained community and regional infrastructure and service delivery. No segment of the public sector is immune from efforts to improve its productivity and in actually "doing more with less." State and local governments indeed must become "lean and mean" to survive the impending fiscal crises now facing both declining and growing counties and states.

Population Shifts

Population growth differentiates many rural from metropolitan areas. In Minnesota, population growth is concentrated largely within the daily commuting zone of the core metropolitan region. Most population centers in the core metropolitan region have experienced rapid growth as a result of rural-to-urban migration in the 1960s and 1970s.

Population redistribution

The geography of population growth in Minnesota is marked by three categories of counties--the persistent gainers, the persistent losers, and the turn-arounds. In the early 1980s, Hennepin and Ramsey were among the turn-around counties, but so were the nine rural counties that grew in the 1970s but lost population in the 1980s. The largest persistent gainers are counties within the daily commuting fields of the metropolitan area centers extending from St. Cloud to Rochester--with two exceptions: these are the "retirement counties" and the larger rural area service centers.

Regional shifts in population during the years of prosperity in the 1970s and in the years of recession in the early 1980s are shown in Figure 2. In the 1970-80 period, one or more counties in 11 of the 13 development regions lost population, but this loss was small overall when compared with their

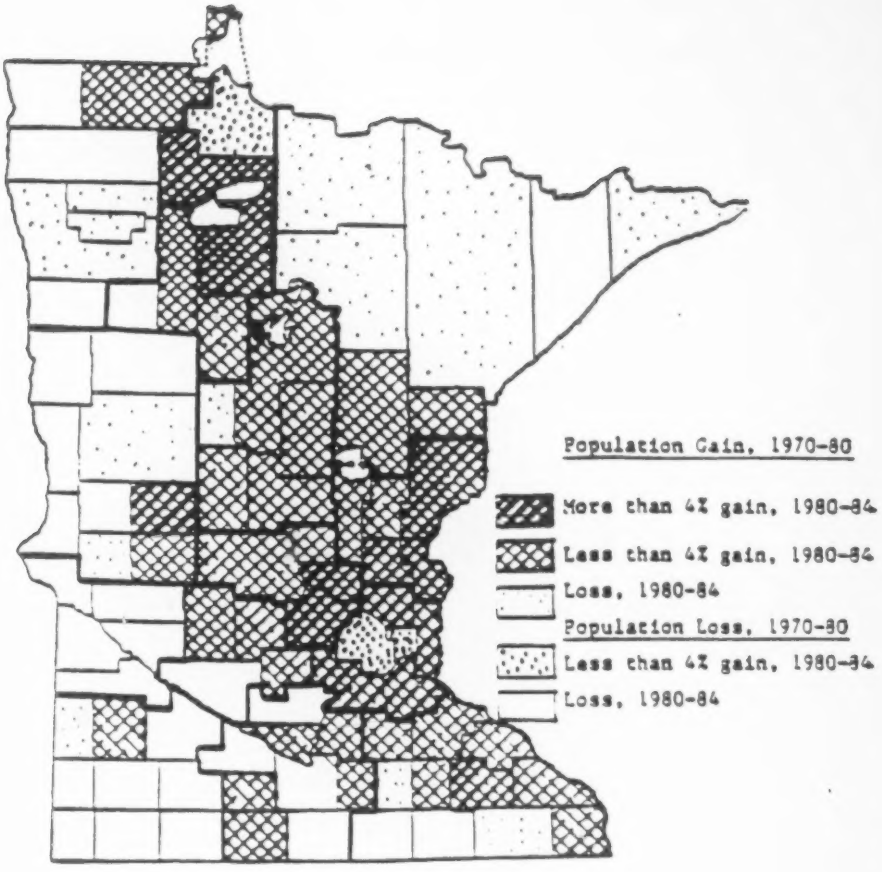


Figure 2. Distribution of Population Gains and Losses Among Counties and Substate Development Districts, Minnesota, 1970-80 and 1980-84.

population increases equivalent to almost 10 percent of the total 1970 State population. These trends were even more pronounced in the 1980-84 period, except for the positive turn-around of the two Metro Council counties.

If recent population trends were to continue with about half the counties gaining population and the rest--all rural--losing population, nearly three-fourths of Minnesota's total population in the year 2000 would reside within a daily commuting distance of the St. Cloud-to-Rochester axis, but for the two exceptions. Today the split is about one-third rural, two-thirds extended metropolitan. In 1950, it was roughly the reverse of this.

The forces working to change the economic geography of Minnesota also affect the changing balance between agriculture and new industry and between rural and urban. And they account for the declining one-industry dependency of many communities and counties in Minnesota. The distribution of one-industry dependence correlates closely with the distribution of persistent population losers.

Still recognized are long-standing sources of Minnesota's past industrial diversity in its natural and human resources--farming, mining, manufacturing, and amenities, including access to esential services in retirement areas. For further discussion purposes, the 87 Minnesota counties are grouped by their currently dominant economic dependency as follows:

Dependency	Number	Substate Planning Regions(s)
Farming	34	Largely 1, 6W and 8 (W)
Mining	2	Entirely in 3 (N)
Manufacturing	9	Mostly 9 and 10 (S)
Government	6	Mostly 2 (N)
Retirement	10	Largely in 4, 5 7E (W,N,S)
Ungrouped	36	Mostly in metropolitan areas

All counties in Standard Metropolitan Areas (as defined by the U.S. Bureau of the Census) are ungrouped, including mining-dependent St. Louis County. Most ungrouped counties are marked by a broad, diverse economic base. The

large economic regions in Greater Minnesota--West, North Central and South--of which the substate planning region is a part are shown in parenthesis.

Income growth

Rural and urban population shifts and the consequent population redistribution have made possible above-average per capita income growth. Minnesota per capita income increased gradually from $521, or 12 percent below the U.S. average of $589 in 1940 to $9688, or two percent above the U.S. average of $9503 in 1980. In 1984, it reached $13.5 thousand, or nearly four percent above the U.S. average of $13 thousand.

Much of the increase in Minnesota's standing nationally in personal income growth in recent years is attributed to the steady growth in total earnings of the employed work force. However, the growth in total personal income lagged corresponding U.S. income growth in the 1940s and 1950s because of lagging population growth. In 1940, total Minnesota population was 2.8 million, or 2.1 percent of the U.S. total of 132 million. By 1960, Minnesota population exceeded 3.4 million, but it dropped to 1.9 percent of the total U.S. population of 180 million. By 1980, Minnesota population had increased to nearly 4.1 million when total U.S. population exceeded 227 million. Minnesota population dropped to 1.8 percent of the U.S. total.

In short, the increase in per capita income must be attributed to two critical factors--the shift in basic employment from agriculture to manufacturing and the rapid increase in labor force participation, particularly female, which more than compensated for the still-lagging population growth. In addition, persons 16 years and older have become an increasingly larger part of the total population, which further increased the employment-population ratio. Each one of these trends has run its course, however. Future per capita income gains must come largely from increased

earnings per worker--a tough order to fill without improvements in labor and capital productivity in all industries, but, particularly, the services-producing industries.

Manufacturing Resurgence

The percentage distribution of both basic and total employment is changing continuously as a result of the business cycle and, also, long-term structural changes in the US economy. In 1950, agricultural employment represented nearly two-thirds, of total export-producing employment, while manufacturing and services, respectively, accounted for only 9.2 percent and 8.2 percent of the total. By 1990, agriculture is projected at 17.4 percent of the total while the services industry is projected at 16.6 percent and manufacturing is projected at 44 percent of the total--a near reversal, of the 1950 economic base with manufacturing and services together accounting for more than 60 percent of basic industry.

Basic employment

The industry distributions of basic or export-producing and total employment for 1950, 1980 and 1990 show the changing industry structure--both the shift to services in total employment and the shift to manufacturing in basic employment, as follows:

Industry	Basic Jobs		(percent)	1980 Comparisons	
	1950	1990		Basic	Total
Agriculture	60.4	17.4		22.5	7.0
Mining	6.8	1.9		4.2	0.7
Mfg., nondurables	9.2	17.6		14.9	6.8
Mfg., durables	0	26.4		20.7	10.7
Tran., comm. utilities	6.9	4.3		4.7	6.1
Wholesale trade	4.8	1.4		3.8	5.7
Retail trade	3.7	12.6		12.5	17.5
Fon., ins., real estate	0	1.9		1.3	6.7
Services	8.2	16.6		15.4	34.0
Construction	0	0		0	4.8
Total	100.0	100.0		100.0	100.0

Only construction among the major industry groups is entirely a residentiary, or nonbasic, activity. In 1950, however, durable goods manufacturing and finance, insurance and real estate also were wholly residentiary industries. Basic jobs in these industries were virtually non-existent.

Another critical change in Minnesota's economic well-being is the remarkable diversity of its economic base. In 1950, agriculture, by accounting for two-thirds of its economic base, had no contenders as Minnesota's basic industry. Indeed, much of the basic manufacturing, trade and service industries was agriculture-related. Nondurable goods manufacturing was virtually non-existent in Minnesota as a basic industry. Yet, in less than three decades, the Minnesota economy was transformed into a post-industrial technology-intensive, manufacturing and service economy with remarkable capacity for self-sustaining economic growth--largely during the periods of expanding domestic markets for Minnesota's export-prodcing industries.

Minnesota's economic geography also changed during the 1950-80 period from place specialization to place diversity. The Minneapolis-St. Paul area expanded from a trade and service center for a goods-producing hinterland to manufacturing, and professional and business services center catering to world markets. At the same time, agriculture-dependent rural counties experienced the effects of industrial overspill from the metropolitan centers. As a result of rural industrialization, now less than two dozen Minnesota counties have more than two-thirds of their economic base in agriculture.

Industry diversification has heightened rather than reduced cyclical fluctuations in the Minnesota economy. Minnesota export-producing industries quickly transmit changes in general economic conditions to local suppliers and

work force. Industry diversification, on the other hand, has lessened the state's vulnerability to structural, as contrasted with cyclical, change by providing existing industries a broad range of opportunities for entering new markets and acquiring new products and production techniques.

The transformation of the Metropolitan Region from a regional trade center with a concentration of agricultural and food products manufacturing into a modern, technolgy-intensive urban-industrial complex is implicit in a comparison of the Region's economic base in 1950 and its projected economic base in 1990. Regional service center industries accounted for much of the Metropolitan Region economic base in 1950 with its concentration of residentiary (except for agriculture-related and food-related manufacturing) industries. The relative importance of the agriculture-related nondurable goods manufacturing and services-producing industries declined and the nonagricultural basic industries increased in importance, as illustrated by 1950 and projected 1990 percentage distributions of basic employment:

- Nondurable goods manufacturing (17.5% in 1950 to 14.7% in 1990)
- Durable goods manufacturing (17.0% to 31.6%)
- Transportation, communications, and utilities (14.2% to 4.5%)
- Wholesale trade (11.7% to 6.2%)
- Retail trade (13.3% to 8.7%)
- Finance, insurance, and real estate (9.8% to 8.8%)
- Services (16.5% to 25.4%)

The 80 counties outside the Metropolitan Region are largely rural. The several urban places of more than 50,000 population are designated as metropolitan areas, but even then the surrounding counties are essentially rural. The critical factor affecting the degree of rurality of these countries is their proximity to the Minneapolis-St. Paul Metropolitan Region.

Until the 1980s Minnesota rural areas brought stability of employment and income to Minnesota's economy. While farming had its own production and trade

cycles, it missed the ups and downs of the general business cycle to which the rest of state had become increasingly vulnerable. The long-standing decline in farm employment was temporarily abated by the agricultural export boom of the 1970s and the consequent appreciation in farm incomes and land values.

Comparison of the 1950 and the projected 1990 percentage distributions of basic employment highlights the changes in industry mix accompanying the shift to a more diverse economic base as follows:

- Agriculture, forestry, fisheries (87.3% to 45.8%)
- Mining (7.2% to 3.6%)
- Nondurable goods manufacturing (2.9% to 8.0%)
- Durable goods manufacturing (.0% to 3.6%)
- Transportation, communications, and utilities (1.7% to 2.6%)
- Retail trade (.0% to 10.9%)
- Finance, insurance, and real estate (.0% to 1.2%)
- Services (.8% to 24.2%)

Farm numbers had been declining since 1910, with an occasional turn around, as in the 1930s and, again, in the 1970s. Both small-to-medium (of 80 to 259 acres) and medium-to-large (of 260 to 499 acres) farms have declined on total number while small farms of more than 50 acres have increased and in number recently and so have farms of less than 80 acres. The declining middle in farm sizes feeds the growth of large farms by farm consolidation and small farms by farm subdivision.

Underlying the changes in farm size are long-established trends towards larger farms for commercial production, with the largest in the western counties, and smaller, part-time and hobby farms near metropolitan areas. Whether or not a decline in total farm households will accompany the decline in total number of farms as a result of farm consolidation depends, in large part, on the level of farm and farm-related activity following consolidation. However, increases in off-farm as well as on-farm resource productivity lead to reduced labor requirements that are likely to counter-balance any future

increases in off-farm trade and service requirements. Thus, in the western counties, where farm consolidation has resulted in the most rapid increases in farms of more than 500 acres, the economic base of most rural communities is likely to shrink faster than any income-generated growth in locally-oriented activities. In the near-metropolitan area counties, on the other hand, above-average rates of farm subdivision are likely to increase overall economic activity because of the increase in local residents and the spending of increased earnings from off-farms jobs.

Between the increases in small farms (of less than 100 acres) and the increases in large farms (of more than 500 acres) are the declining numbers of medium-size farms. Above-average numbers of this size group are located in the southern and southwestern countries and, also, in the St. Cloud-Little Falls area. Even in these areas, the processes of farm consolidation and subdivision are gradually subsuming the medium-size class of farms. If present trends continue through the 1990's, most of the commercial farm production from the medium-size farms will have shifted to farms of more than 500 acres. The growth of small farmland ownerships would occur largely because of industry diversification and expanding job oportunities in and near metropolitan areas.

Labor earnings

Labor earnings account for a major part of total personal income. In 1982, total labor earnings of $35.1 billion accounted for 73.4 percent of total personal income, while in 1985, $44.4 billion of labor earnings accounted for 74.8 percent of total personal income. Projected total labor earnings of $67.8 billion (in 1985 dollars) would account for 77.1 percent of total personal income in 2000. The large percentage increase in labor earnings as a source of personal income in Minnesota is attributed to a

decline in US transfer payment share and the US property income share of Minnesota residents.

Above-average labor earnings in manufacturing--50 precent above the overall average--enhance even further its dominant role in the Minnesota economy. If the Minnesota economy is highly dependent on manufacturing for its basic jobs, it is even more dependent on manufacturing for its labor earnings. Manufacturing now generates more than 50 percent of Minnesota's basic dollars--a role attributed to agriculture, mining and related manufacturing in 1950. Manufacturing is projected to account for two-thirs of the basic dollars in 2000. While directly or indirectly accounting for most of Minnesota's basic job and basic earnings, it also represents a source of increasing income instability for households, business and goverments.

Variability in period-to-period growth in total personal income payments is increased by labor earnings and reduced by transfer payments. While individual components of personal income are generally increasing over the 18-year projection period (from 1982 to 2000), their relative change is highly variable, with increases in per job and per resident earnings being above the projected increases in corresponding US income components. As labor earnings account for a larger share of total personal income, year-to-year income fluctations will become of increasing importance to Minnesota residents and governments insofar as they lead to corresponding fluctuations in consumer expenditures and tax receipts. This brief review of Minnesota employment and earnings trends to the year 2000 is summarized as follows:

1. Minnesota's manufacturing industries account for much of Minnesota's above-average economic performance in the recovery phase of the US business cycle.

2. Minnesota's manufacturing industries also account for much of Minnesota's below-average economic performance in the recession phase of the US trade cycle.

3. Minnesota's overall economic performance has lagged the Nation since 1982 because of above-average dependence on the dollar-sensitive exports of its manufacturing industries.

4. Minnesota's overall economic performance is likely to lead the nation in 1988 and even 1989 with growth of export markets, both foreign and domestic.

5. Short-term economic fluctuations resulting from the general business cycle and the foreign trade cycle, together with the uncertainties of US economic polices that affect both the business cycle and the trade cycle, obscure long-term trends affecting Minnesota's economic outlook to the year 2000.

6. Minnesota's economic outlook is affected, finally, by the productivity of its human resources that, in turn, is affected by the investment decisions of its industry and government to facilitate productivity improvements in any and all work places.

State Policy Options

State government is an important participant in economic development that leads to job creation in rural areas. It also is an essential agent of the growth of the modern metropolitan core region--the new territorial innovation complex. These critical roles stem from the exercise of the traditional functions of state government in raising revenues, maintaining and expanding rural and urban infrastructure, and catering with care and compassion to the essential needs of the young, the sick, the poor, and the aged. To efficiently and effectively perform these critical roles in domestic economic development, state governments must have timely, accurate and readily accessible statistics about people and jobs. The US Bureau of the Census provides the authoritative statistical bases for comparing state revenues and expenditures from one year or period to the next and also monitoring the economic health of each county and metropolitan area in every state.

Raising revenues

The raising of state revenues is accomplished with a changing mix of income and sales taxes, and fees and services. In 1980, the $3.3 billion of

state revenues, including individual income and inheritance tax receipts, $1 billion of corporation taxes (income, bank excise, gross earnings and mineral production), another $1 billion of sales and consumer excise taxes, and $176 million of fees and charges. The Metropolitan Region accounted for $1.8 billion, or 56 percent, of the allocated total revenues of Minnesota state government in 1980.

Individual and corporation income tax receipts increased from 52 percent of total state revenues in 1980 to nearly 58 percent in 1985. Because of the concentration of personal and corporate income in the Metropolitan Region, its share of total state revenues increased from 58 percent to 60 percent.

The 1980-85 trends for the individual revenue sources differ between the Metropolitan Region and Greater Minnesota because of the underlying differences in the level of economic activity. Individual income and inheritance taxes, for example, increased (on a per capita basis) from $441 to $688, or 56 percent, in the Metropolitan Region and from $254 to $353, or 39 percent, in Greater Minnesota. Similarly, per capita sales and excise taxes increased from $257 to $479, or 86 percent, in the Metropolitan Region and from $211 to $371, or 76 percent, in Greater Minnesota.

Because of the disportionate share of total revenues originating from a selective sales tax and a progressive individual income tax, state revenues receipts are cyclically sensitive. The cyclical sensitivity is becoming even greater with the growing importance of labor earnings in the personal income payments received by Minnesotan residents. Moreover, the growing importance of manufacturing payrolls accentuates the cyclical sensitivity of the state's tax structure. Some broadening of the state sales tax base is needed if state revenue shortfalls are to be avoided.

Prioritizing spending

Expenditures of state government have increased sharply under the aegis of a new federalism. Total state government expenditures in Minnesota increased from slightly less than $4.1 billion in 1980 to slightly more than $5.7 billion in 1985--about a 40 percent increase. This compares with an increase of 53 percent in total state revenues (from $3.3 billion to $5 billion)--the difference being due to an actual reduction in regionally nonallocated revenues, (like federal transfer payments), from $784 million to $712 million.

In 1980, the $4.1 billion of state expenditures included $1.1 operating expenditures (current and capital), $388 million for direct payments to individuals (welfare and education), $1.1 billion for education (K-12 and post-secondary, except University of Minnesota), $248 million for University of Minnesota, $607 million for intergovernmental transfer payments (shared taxes, general support, property tax credits, and property tax relief fund), and $579 million unallocated. By 1985, the correspoding expenditure levels were $1.5 billion, $727 million, $1.6 billion, $305 million, $766 million, and $754 million, respectively, for operating expenditures, direct payments to individuals, education (except University of Minnesota), University of Minnesota, intergovernmental transfer payments, and unallocated.

Overall, state expenditures per resident increased by 37 percent in the five-year period from 1980 to 1985, from $994 to $1362, including the regionally unallocated expenditures. Corresponding increases for the Metropolitan Region and Greater Minnesota were 33 percent and 45 percent, respectively (i.e., from $924 to $1227 and from $780 to $1130). The largest increases occurred in direct payments to individuals (primarily welfare). The increase in spending for the University of Minnesota was the smallest of the five functional categories.

Comparison of revenues, by origin, and spending, by function, provides a

measure of the level and direction of regional income redistribution achieved by a combination of selective taxes and targeted spending. An acceleration of this process was precipitated by lagging economic growth in Greater Minnesota in the post-1982 period. By 1985, Metropolitan Region taxpayers had contributed nearly $400 million of taxes to support governmental infrastructure and services--primarily education and welfare--in Greater Minnesota, based on 1980 relationships between total state revenues collected in, and total state expenditures allocated to, each region.

Minnesota state government currently lacks the essential resources for effectively prioritizing state government expenditures by taking into account economic as well as political opportunity costs and trade-offs. For example, the $400 million transferred from Metropolitan Region taxpayers to Greater Minnesota local governments could be spent by Metropolitan Region taxpayers directly through lower taxes or by Metropolitan Region local governments. However, an increase in local government expenditures through third party payments is likely to invite waste and inefficiency in current resource use. Similarly, additional third party payments to Greater Minnesota local governments are likely to detract from likely productivity improvements designed to compensate for declining local tax revenues. On the other hand, a negotiated one-for-one transfer of state monies for documented productivity improvements would have a two-fold multiplier effect on the delivery of local government services through the immediate reduction in costs of the existing service load and the added transfer income for replacing revenues lost because of declining industry employment and payrolls. A most likely candidate for such improvement in services provided is the local school district.

Improving productivity

The bottom line of all effective and meaningful economic development is

improved productivity of all employed resources rather than simply export expansion. Such results are most readily demonstrated in U.S. industry output and employment trends.

World-scale competition is forcing goods-producing industries to move quickly to adopt cost-reducing measures, while residentiary services-producing industries are being protected from much outside competition by high transportation costs and the advantages of close proximity to their customers. Minnesota export-producing industries remain competitive in large part because of the productivity of their work force that is sustained at high levels by early adoption of cost-reducing technology and business services.

Comparison of output per worker in goods-producing and services-producing industries shows an early narrowing, but a more recent widening, of the differences between the two sectors. Over the 1967-80 period output per worker in U.S. industry grew at an overall rate of one-percent annually in both goods producing and services-producing industries. In the 1980-84 period, however, output per worker increased 3.0 percent and 1.2 percent, respectively, in the two industries. Overall industry growth was 0.6 percent and 1.5 percent, respectively, for the two periods.

A larger share of GNP growth is attributed to growth in output per worker in the 1980-84 period than in the 1967-80 period. Limited export market expansion, coupled with newly emerging demographic constraints, made labor productivity growth an increasingly important determinant of the 2.8 percent real GNP growth in the 1980-84 period. Similarly, the Minnesota economy depends on above-average growth in worker productivity to achieve above-average growth in its industry gross product. Thus, the rapid shift to services, together with an increasingly severe demographic constraint on the future growth of the Minnesota labor force, make doubly important a renewed

90-255 0 - 88 - 3

focus on productivity in the work place, particularly in the services-producing industries.

For state and local governments, labor and capital productivity improvements in the services-producing industries would accelerate the adverse effects of reduced rates of growth in public spending. Productivity improvements are still virtually non-existant in the two activity areas most heavily supported by state and local spending--education and health care. Labor productivity of public primary and secondary school instructional staff, for example, fell by 36 percent from 1940 to 1986. During the same period labor productivity of all civilian workers increased by 108 percent.

Professor Richard Vedder--a respected authority on the economics of public education--has noted that public schools educated 16.5 percent of the population at a cost of two percent of the nation's output in 1950. In 1986, it took 3.5 percent of the nation's output to educate the same proportion of the nation's population. Vedder relates the productivity decline in public schools to three factors: monopoly power, third party payments and "seeking something for nothing" by being a "rent-seeker", that is, attempting to increase one's income without a trade-off of any added, and demonstrably productive, work. For example, private schools spend 36 percent less per pupil than public schools. Private schools, of course, face competition for students while public schools do not. Moreover, when consumers do not pay directly for the service, they have little incentive to demand efficiency and effectiveness of service delivery. Making payments to the consumers for these services rather than their providers would reduce at least two of the three deterrents to improved productivity in the schoolroom.

Similar concerns are expressed over post-secondary education and the lack of performance measures that reasonably well represent the values sought by

the consumers and not simply the values put forth by the providers of educational services. While the social value of scientific education and research is widely recognized, it does not necessarily follow that the more advanced the post-secondary education the more it must remain the exclusive responsibility of a provider-driven service delivery system. The challenge of improving productivity in post-secondary education necessarily includes thorough examination of the processes for establishing and implementing performance goals as well as the goals themselves and the efficient use of incentives to reach these goals. As suggested by Tor Dahl--a distinguished management consultant for some of our largest private corporations as well as several of our public school districts, productivity in the work place is three dimensional in that it involves efficiency, effectiveness and occupancy. Of the three, effectiveness is most critical insofar as it establishes the societal or market value of the results achieved by this activity. Improving productivity means doing the right thing, doing it well and without waste of time and effort, that is, being efficient and fully occupied while being effective.

The gradual deregulation of health care providers has introduced productivity improvements in hospitals, clinics and other medical services. For the most part, however, productivity gains in health care delivery remain small for the three reasons cited earlier--monopoly power, third-party payments, and rent-seeking behavior on the part of providers. Possibly the new threats of an imminant fiscal crisis facing employers making third party health care payments will bring the issue of achieving soon significant improvements in health care delivery to the attention of legislators, voters and health care activitists.

Managing strategically

Strategic choices--decisions that make sense for the long pull--grow from an understanding of relationships of the past to the present and the useful conclusions that can be drawn from these relationships for the future. Of particular concern to the fiscal future of state and local government in Minnesota is world economic restructuring and its implications for the financing and organization of public infrastructure and services, particularly education.

In an information-based society, the production, interpretation and productive use of information is an important contribution of state and local governments, especially as this information relates to the the improvement of labor and capital productivity in the work place and the local and regional community. Because of the central and critical role of state and local governments in education, and to the extent that education contributes to economic productivity, state and local governments are indeed key players in the new competitive age in which the playing fields are local and regional but the game is global.

Global competition is measured in trade. In Minnesota, the trading in goods and services between the Metropolitan Region and Greater Minnesota is larger in dollar volume than with all of its foreign trading partners, while it is nearly ten times larger with the rest of the US than it is with the rest of world. Our most important markets are next to us and also our most important challenges.

Productivity per nonfarm worker in Greater Minnesota on the average is one-third to one-half below the corresponding statistic for the Metropolitan Region as measured by labor earnings. Productivity per worker is low because investment per worker is low, which is the result of limited access to essential information for developing business and market plans--laregly on the

part of small businesses--that are strong enough to attract the needed productivity-increasing investment financing. Low wages, of course, makes low investment per worker an economically-viable option, but low wages will remain low as long as worker productivity remains low. It is important to acknowledge that Greater Minnesota businesses with good management and adequate financing are profitable, unlike much larger numbers of small businesses.

Regional centers of applied economic and business research that are linked to both the State University System and the University of Minnesota would help organize the intellectual and statistical resources supported by state and local financing for meeting the critical challenge of improving total resource productivity in the work place of each substate region. Target activities for such efforts would include education, health care and other tax-supported services-producing activities that are a growing burden on the taxpayer because of rapid cost inflation and lack of productivity improvements. Such centers would be complementary, rather than competitive, with existing research centers, provided they have an appropriate organizational form, environment and financial support for achieving their individual goals.

Summary

Rural-urban population shifts are triggered by the impact of farm and service system consolidation and mine and manufacturing plant closure on employment and income. Farm consolidation and plant closures lead to service system consolidation as farm and other rural households decline in total number and as farm and factory operators expand their procurement area for production inputs, thus reducing local business sales. Together, farm, factory and service system consolidation or closure leads to fewer local jobs in many rural communities and utimately to more people leaving, with few, if

any, returning.

Relocation and, also, restructuring of traditional goods-producing industries--agriculture, mining, and manufacturing--are changing Minnesota's rural-urban balance. Much of the traditional goods-producing industries, which now experience intense world-scale price competition, are in rural areas.

Services-producing industries, particularly high-order professional, business and related manufacturing services that compete, in varying degree on a non-price basis, are concentrated in the seven-county Twin Cities Metropolitan Region and, to a lesser extent, in the four metropolitan centers (Fargo-Moorhead, Duluth-Superior, St. Cloud and Rochester).

Despite the shift to services, the goods-producing industries account for a critical part of the economy of Minnesota's rural regions. They also experience most severely the consequences of world-scale economic restructuring and of general business cycle fluctuations.

Above-average labor earnings in manufacturing--50 precent above the overall average--enhance its dominant role in the Minnesota economy. If the Minnesota economy is highly dependent on manufacturing for its basic jobs, it is even more dependent on manufacturing for its labor earnings. Manufacturing now generates more than 50 percent of Minnesota's basic dollars--a role attributed to agriculture, mining and related manufacturing in 1950. Manufacturing is projected to account for two-thirds of the basic dollars in 2000. While directly or indirectly accounting for most of Minnesota's basic job and basic earnings, it also represents a source of increasing income instability for households, business and goverments.

State legislatures are now facing the reality of a budget crisis, triggered, in part, by the economic restructuring percipitated by increasingly intense world-scale product price and quality competition. This competition

directly affects all goods-producing industries and many services-producing industries heretofore protected by government regulation and/or proximity to local customers.

Residents in declining rural counties now experience the adverse effects of this new economic order as do residents of growing metropolitan counties, although both gain the benefits of economic growth, but in varying degree. Not surprisingly, both the private sector and the public sector of metropolitan regions challenge, more strongly than ever before, the efficiency and efficacy and even the fairness of state government transfers from financially distressed, but growing metropolitan counties to financially distressed and economically-lagging rural counties.

The bottom line of the new fiscal crises of state and local governments is the challenge of improving the productivity of state and government resource use--in public schools, publically-funded hospitals and clinics, publically-supported post-secondary education institutions, public administration and all other publically-maintained community and regional infrastructure and service delivery. No segment of the public sector is immune from efforts to improve its productivity and in actually "doing more with less." State and local governments must become "lean and mean" to survive the impending fiscal crises now facing both declining and growing counties and states. For state and local governments, labor and capital productivity improvements in the services-producing industries would accelerate the adverse effects of reduced rates of growth in public spending.

Productivity improvements are still small in the two activity areas most heavily supported by state and local spending--education and health care. Labor productivity of public primary and secondary school instructional staff, for example, fell by 36 percent from 1940 to 1986. During the same period

labor productivity of all civilian workers increased by 108 percent.

The rural-urban population shifts will force state and local governments to develop new ways of raising revenues. Because of the disportionate share of total revenues originating from a selective sales tax and a progressive individual income tax, state revenues receipts are cyclically sensitive. The cyclical sensitivity is becoming even greater as a result of the growing importance of labor earnings in the total personal income of Minnesotans. Also, the growing importance of manufacturing payrolls accentuates the cyclical sensitivity of the state's tax structure. Some broadening of the state sales tax base is needed if state revenue shortfalls are to be avoided.

State and local spending also calls for re-assessment in the wake of economic restructuring that critically affects the economic base of individual communities and regions. In Minnesota, for example, state expenditures per resident increased by 37 percent in the five-year period from 1980 to 1985, from $994 to $1362. Corresponding increases for the Metropolitan Region and Greater Minnesota were 33 percent and 45 percent, respectively (i.e., from $924 to $1227 and from $780 to $1130). By 1985, the Metropolitan Region taxpayers had contributed nearly $400 million of taxes to support governmental infrastructure and services in Greater Minnesota.

Comparison of revenues, by origin, and spending, by function, provides a measure of the level and direction of regional income redistribution achieved by a combination of selective taxes and targeted spending. An acceleration of this process was precipitated by lagging economic growth in Greater Minnesota in the post-1982 period. New concerns surface over the long-term viability of existing expenditure levels and their opportunity costs.

A still missing dimension in the harnessing of statistical and intellectual resources for successfully coping with the challenges facing regional applied economic and business research centers. Such centers would focus their efforts on the critical issues emanating from the new competitive challenge of improving productivity in the work place and the community, particularly in the publically-supported services-producing industries.

Mr. SIKORSKI. I thank all of you for your excellent testimony and, as I said before, your prepared remarks and the charts, maps, graphs and supporting statistics will be in our record as they have been submitted.

Dr. Long, thank you for your points. I was particularly interested in the point, and I quote, "The future population growth in rural as well as urban settings may depend strongly on the degree to which their local economies specialize in activities that are competitive in international commerce."

I think you will note that the testimony you will hear from Mr. Montgomery and Mr. Gillaspy later on shows that Minnesota understands this at least.

We are planning for it and we are trying to adapt to it. But that point needs to be made again. Everyone mentions the internationalization aspect of this issue.

I grew up in the Red River Valley in Wilkin County and what happens in China, what happens in Taiwan, what happens in many hundred and some different countries around the world affects, critically, the pocket book and the family home of the people in Wilkin County now in a way that never was the case 30 some years ago when I was growing up there.

Anything to add to re-emphasize that point of internationalization?

Dr. LONG. I think I was surprised to find that that point was made by I think all four speakers here one way or another. And I think it means nobody is safe anymore from foreign competition; that population growth reflects to a very strong degree the kinds of jobs that an area is generating or not generating and that more areas have probably become more susceptible to foreign competition.

At one time, perhaps in the early 1970s, nonmetropolitan areas were seen as offering more wages and so forth, that jobs were becoming more mobile, and that the idea I believe was that many kinds of manufacturing jobs would be flowing out into the rural areas.

I do not think we can be quite so complacent anymore. Wages may still be lower in rural areas than in urban. But wages are still lower in many Third World countries.

The mobility of jobs has probably increased as technology has become standardized and exportable.

So in some ways I think that rural areas had an advantage in this regard in the early 1970s, much more so than at the present time.

And the rural areas, manufacturing in particular, has become especially vulnerable.

Mr. SIKORSKI. The Chinese character for crisis is a combination of the two separate characters of danger and opportunity.

And as you pointed out, none of us are safe from the internationalization of the economy and foreign competition.

At the same time, there is a major opportunity there and that is what we will be hearing about later on, how we can use the internationalization of the economy to better conditions and to increase employment and the economies of Greater Minnesota.

90-255 O - 88 - 4

Mr. Beale, you have earned your reputation. I want to re-emphasize the fact that you point out what is little known by people in this discussion. I think most people see the rural-urban shift as one that has occurred over a hundred years or longer in America and it has been sustained and direct.

The fact is, as you have pointed out and others have as well, in the 1970s there was an increase to many rural areas of America and that the numbers were quite different.

And it disproves the idea that this is a one-way dynamic. Rural areas can sustain increased growth, better economic resources, and can offer the potential for development.

But it is going to take some work.

Mr. BEALE. It just disproves the notion that rural to urban shift was inevitable and would last forever. The changes in the 1970s simply were not anticipated at all in the public literature or academic literature of the day.

But various factors came together that did produce this change and it was not simply an American change, I might note.

It happened simultaneously in a number of countries of northern and western Europe. Even in Australia and Japan. It seemed to be occurring in most nations that had advanced urbanization, advanced technology and high income, and, in effect, had all the urbanization that they needed at the time.

People were reacting somewhat negatively to urban areas and more positively to conditions and opportunities in rural areas.

Mr. SIKORSKI. I think, Commissioner, you made several points that should be emphasized. One is that we need to increase Federal, State, and local initiatives on economic development.

I expect that will be a component of the current Presidential campaign and a major part of a new Administration's economic development program.

We are trying to do that in our business and industry data center, and I think Dr. Gillaspy, who works for you will be talking about that later on.

One thing that you mentioned and that your testimony brings out quite clearly is that with unemployment down and employment up across all sectors, with unemployment insurance and welfare services demands down, and with growth up, it is a pretty good picture.

But there is an invisible Minnesota as well. There is a component, and much of it is rural. There is a part of our economy that is impoverished more than ever before.

Family income is up across the board on the average, but we have a poorer and poorer group in our state and across the country.

And you are trying to deal with it. I thought that point needed to be emphasized as well.

Can you talk about what you are doing and how you are looking at the numbers on the drought and as you also mentioned in your testimony, that the drought could throw all these positive trends out the window very quickly.

Ms. KAWAMURA. I believe that was Dr. Beale that made that point.

Congressman Sikorski, I believe that was Dr. Beale or Dr. Long that made the statement about the impact of the drought.

We are monitoring it here largely through our Department of Agriculture. As you know, the Governor is in fact in Washington today meeting with members of the Administration.

Mr. SIKORSKI. I read over special economic conditions at the end of your testimony. "Many of the nonmetropolitan areas of the state are still subject to special and localized economic conditions."

Ms. KAWAMURA. Oh yes, yes.

Mr. SIKORSKI. "We are especially concerned about drought conditions in Minnesota."

Ms. KAWAMURA. Yes we are. Definitely.

Mr. SIKORSKI. Okay.

Ms. KAWAMURA. One of the things I would like to say are just two points which the drought is clearly an important factor, and that is the economic sectors that we are looking at, we show great and significant, I think, improvement in Minnesota.

But it still remains in what we could describe as a three-economy state: those people who are doing well, the center cities, and then the rural areas; and the rural areas are even subdivided into those areas that are improving in those areas that are still showing double-digit unemployment.

The second point I would like to make is that in regards to economic development strategy, state and federal investment, I would strongly suggest that we take a closer look at that statement.

And in fact work together to redefine what that economic redevelopment strategy is. It is not simply, in my opinion, to put more manufacturing or companies out in rural Minnesota.

I mean we have to take a look at where we can do the best job, where we can seek new products for the commodities that we are producing on our farms.

And what kinds of alternatives there are to strategic economic development. Mr. Beale said something about Galesville in Wisconsin?

Ms. KAWAMURA. Who was trying to attract industry. We have a community outside of Moorhead named Barnesville that we have heard has put together a strategic plan to become the best bedroom community for Moorhead.

And that is their goal and that is their objective. So as we move through the restructuring of our economy, we will begin to see, I think, some alternatives, very creative ones at that, coming forth from the grassroots.

Mr. SIKORSKI. When I grew up, Barnsville was the bedroom community of Breckenridge.

Ms. KAWAMURA. Now they have decided we have become the best bedroom community of Moorhead.

At any rate, as I said, some of those creative options in local strategic planning and state and federal investment in new product development, international efforts are, I think, things we need to continue to move aggressively on.

Mr. SIKORSKI. Dr. Maki, any concluding comments?

Mr. MAKI. Well, speaking strategically, it just seems to me that what the rural-urban population shifts highlight is the importance

of looking at four things very carefully, and these have been touched upon.

One is the problem of raising taxes in the face of increasing instability in the economic structure of this state and other states.

We are depending on such a narrow range of taxes in a sense, that broadening the tax base is inevitable.

Secondly is the urgent need to do a better job of prioritizing spending. It is a problem all of us recognize.

But it is coming to a point where we do not have enough resources to cover the spending we would like to engage in.

Thirdly is the extreme importance of improving productivity in the public sector. It is high in state government but in the things the state government supports, it is not good at all.

And nothing is happening as far as I can see to generally improve productivity in the public sector, although there is much talk of doing so.

And fourthly, managing strategically is to be able to learn from the lessons of the past and do something better in the future.

And one suggestion made time and again, which seems to get nowhere, is to seriously look at the possibility of setting up applied regional economic and business research centers that are linked together so that we can start looking at the total market environment of small businesses, including their productivity of resource use, which is dismal.

And until their productivity improves there is no lasting basis for increasing the real wages that rural people earn in off-farm businesses.

Mr. SIKORSKI. Thank you all, Drs. Maki and Beale and Long and Commissioner Kawamura. Thank you very much for your excellent testimony and assistance to the subcommittee.

We are going to go from the large, the strategic, to the smaller and tactical, the hands-on right now with our second panel.

Thank you very much.

Our second panel consists of Ms. Barbara Bladin from Biwabik; from Winnebago, Ms. Vi Velta, and Perry Nelson from New London, West Central Minnesota; and Dan Edgar from Glenwood.

It is nice that on a 93-degree day you brought a quilt along. That's beautiful. Do you have price tags on all of those, too?

You take orders? [Laughter.]

Let me begin with Barbara. Barbara Bladin is from Biwabik and is very active in coordinating a church craft exchange and has returned a great deal of money to the Iron Range community.

From my District, the Sixth Congressional District, the Lake Minnetaka area, she has brought with her the testimony of Ms. Grace Cherro.

Without objection, her testimony will be placed in the record as submitted. She couldn't, unfortunately, be with us today, but Grace has set up the Laurential Craft Group and takes what Barbara is doing and tries to expand it so that the craft groups, up through an ecumenical, religious kind of network, with others, take these crafts that are made up in the Iron Range are then market them throughout the state at craft fairs and the rest of it, consolidating and eliminating some of the costs.

And Grace has a nice statement that we will put in the record explaining that whole operation.

[Statement of Grace Cherro follows:]

GRACE CHERRO
AURORA, MINNESOTA
(Retired)

At the present time, I am the President of the Laurentian Craft Club. Our club has a Vice-President, a Treasurer, and a Secretary. These positions are elected to their respective offices once every two years at our Annual meeting in September. We have 23 members at this time. Each member pays $20.00 a year dues. One member in a family means his or her spouse, or their children, may take part; and we do have children making crafts for our sales. From the membership dues and 10% of sales, the Club pays for the cost of entry fees at shows, advertising and some mileage. We also have a savings account set up for lost or stolen items. This is our so-called "Insurance Fund" because we cannot afford to obtain an insurance policy to cover losses. The premium quoted to the Club for insurance was way over our heads, so we established our own way to reimburse for losses. The Club also pays for sales tickets, bags, plastic covering, etc. At the present time the Club owns 6 folding tables with tablecloths, and a plastic canopy. This was not bought in a minute but over the years we have acquired these items. The Club does have its own Minnesota Tax Number, so anything that a member sells, we collect the sales tax for and submit it to the State Commissioner of Revenue.

The project was actually started in 1983 because of the economic situation on the Range. The Wayzata Community Church worked with the Biwabik Community Church to have a Christmas Craft Sale. A group of people from Biwabik took truck loads of crafts to Wayzata to be sold. We were very fortunate to have those considerate people that year. The money earned helped out the Christmas stockings and the food tables, as well as clothing items that were much needed that year.

In 1984 the Laurentian Craft Club was formally formed. Every November the Laurentian Club goes to the Wayzata Church still. These people have helped us enormously as well as many other people. They do not charge us for setting up there for two days. They feed us both days, and have coffee and bake goods all day long for us. Also, if there is anyone without relatives or friends to stay with, the Church members offer their homes to us.

As a member of the Club, if you are unable to attend a show, some other member picks up your merchandise and transports it to the show. Each member has a designated number, and his or her merchandise is priced with the number

on the tag. We have a list of members, which I am enclosing, so we know what items belong to whom. An inventory sheet is also turned in at the beginning of each show, so if a price tag should fall off, we can refer to the list of the person who made the item for the correct cost. Some of the items the Club members produce include woodworking of all types: shelves, chairs, lamps, toys, clocks, wall-hangings, refrigerator magnets, mirrors, bird houses, bird feeders, etc. We also have a 13 year old boy who sells wooden games and uses the money he earns to pay for his winter skiing expenses. Other Club items include dolls, doll clothes, stuffed toys, pillows, aprons, casserole carriers, clowns, towels, quilts, plastic canvas work, ceramics, rosemaling, and reverse glass painting. Leather and beadwork, which in my opinion is almost a lost art, are done by an Indian fellow in our Club. Some of our members do not have a way to market their crafts or will not drive to a bigger city. Those of you who reside in these larger cities may have no idea how frightening it is for some of us from our secure little towns to travel to these fast moving metropolises. I have personally driven down to the Twin Cities for four years now, and I still hold my breath driving through the traffic. So naturally, all of us do not go to every show, but we are expected to work at various shows or provide a responsible person to take our place when our name comes up to work. We do sell more of our crafts in the Metro area, as you can see from some of the figures I have submitted.

There is one thing that really "irks" me, and I would like this time to bring it to your attention. This is the fact that we allow so many imports into the United States. I realize we must have trade, but does it have to be so one-sided? Most gift shops carry all import items. For instance, a cup you purchase as a "souvenir of Minnesota" has "Made in Japan" stamped on the bottom. We have two women in our Club making beautiful souvenir cups but they cannot compete at the lower import price. There are many, many people in our area making lovely crafts but they cannot sell their items because an exact import item costs so many dollars less. For example, a lady puts a wreath she prices at $15.00 on consignment at a craft shop; the shop owner then increases the price to $23.00 to get his commission. No one is going to purchase this wreath over the price of one made in Taiwan and selling for $8.00. There are many people that could and would do crafts if they could only find a way to sell them. Most people, that I know, take the price of their materials and <u>double</u> it for a selling price, which does not give them very much for the time they put into making this item.

As for the reason I got involved, I do crafts myself, as well as my husband. I am not afraid to give orders and I have been active in selling crafts a long time. When you have 23 people in one group, someone has to be an organizer, so that's my role and I enjoy it. Our members come from all walks of life. All ages also--many on social security trying to make an extra $1 or $2, as well as keeping their minds occupied and the social aspect is enjoyed by all. As for the young ones I mentioned before, it gives them a sense of pride to be able to make something that can be sold, along with responsibility in helping the Club. The boy that is 13 now has been going with our Club for 3 years now. He can unpack, display and pack as well as any other member. It make me proud to be able to help young as well as retirees. One young lady, who joined our Club 2 years ago, has started going to Craft shows on her own, which she never would have done if the Club hadn't helped build her self-confidence. I am hoping we will be able to get more young people interested in the Club to keep us going. We would also l[illegible] to have more outlets available to us for sales, such as the one held at [illegible] Wayzata Church. Three or four big shows a year would sure help a lot of people.

I am sorry I am unable to attend these hearings, but my husband is having cataract surgery, so it's best I be at home. I would have loved to have attended these hearings.

Grace Cherro, President
Laurentian Craft Club
Route 1, Box 2007
Aurora, Minnesota 55705

Attachments: Membership List
Laurentian Craft Club By-Laws
1987 Show Listing

1987-88 LAURENTIAN CRAFTS

03	Louis Tolvanen Bird Feeders, Duck Towel Racks	N. Woodland Terrace	Aurora	229-3230
05	Edna Huntley Rosemaling, Reverse Glass Painting	313 Elmwood	Hoyt Lakes	225-2333
10	Marileen Van Anda Cabbage Patch Dolls & Clothes	Route 1	Embarrass	984-2403
12	Grace & Jim Cherro Woodworking, Sewn Articles	Rt. 1, Box 2007	Aurora	229-3439
13	Rod Franson Woodworking	16 N. ½ St. East	Aurora	229-3634
17	Doreen Litchy Toys	304 Elmwood	Hoyt Lakes	225-2553
20	Kandi & Larry Steenerson Woodworking, Sewn Articles	319 Brandon	Hoyt Lakes	225-3156
31	Edna Nagel Rug Weaving	Rt. 2, Box 35A	Aurora	229-2054
34	Jane Williams Sewing Baskets, Raggedy Ann & Andy Dolls	910 Dorchester	Hoyt Lakes	225-3558
36	Glorene Clark Stuffed Animals	Rt. 1, Box 431	Aurora	229-2409
37	Joyce Laurila Plastic Canvas Ornaments	219 Kent	Hoyt Lakes	225-3235
41	Richard Thieling Games	206 S. 5th St. East	Aurora	229-3725
42	Norman Thieling Woodworking	Rt. 1, Box 15	Aurora	229-2482
43	Lorraine Aspie Rosemaling, Reverse Glass Painting	436 Andover	Hoyt Lakes	225-2540
44	Mary Ellen Dorman Ceramics	Rt. 1, Box 129C	Makinen	638-2814
45	Judy Kylmala Pillows	P.O. Box 104	Embarrass	984-3001
46	Laila Furchner Dough Art Ornaments	Box 161	Makinen	744-3084

Laurentian Crafts
Page 2

47	Louise Goette Ceramics	333 Brandon	Hoyt Lakes	225-2486
49	Nancy Heuer Fabric Clocks & Quilts	716 Summit	Aurora	229-3775
52	Jo Ann Suomala Clowns	416 Hampshire	Hoyt Lakes	225-3219
53	Wayne Nawagezik Leather & Indian Beadwork	111 East 3rd Ave. North	Aurora	229-2051
54	Lucy Ulman Foam Magnets	4007 S. Shady Lane	Eveleth	744-3231
55	Steve Riess Woodworking	Rt. 1, Box 268A	Cotton	

Adopted September 1987

CONSTITUTION

ARTICLE I
NAME

Section 1. The name of this club shall be Laurentian Craft Club.

ARTICLE II
OBJECT

Section 1. The object of the Club shall be:
To unite in one organization those persons who are engaged or interested in the production and sales of art and craft items.

ARTICLE III
MEMBERSHIP

Section 1. Any person engaged in the production of Art and Craft items may become a member.

Section 2. Any person may become a member upon acceptance of the bylaws, and payment of dues.

Section 3. Dues will be $20.00 a year, non-proratable, and due September 1 of each year.

ARTICLE IV
OFFICERS

Section 1. The officers of this shall be:
PRESIDENT
VICE-PRESIDENT
SECRETARY
TREASURER

Section 2. All officers shall be elected by ballot on odd years at the Annual meeting which shall take place the first Thursday of September.

Section 3. Term of office shall be two years.

Section 4. DUTIES OF THE OFFICERS:

PRESIDENT

1. The president shall have the power to appoint all committees.
2. The president shall have the power to fill any vacancies until the next Annual meeting.
3. The president shall have the power to cast the deciding vote at all issues before the Club.
4. When necessary, the president shall make decisions for the Club, after consulting the other officers.

VICE-PRESIDENT

1. In the absence of the President, the Vice-President shall have all the powers and prerogatives of the President.
2. In case of the resignation or departure of the President, the Vice-President shall resume the President's duties, and appoint a temporary Vice-President.

SECRETARY

1. All resolution and proceedings of meetings shall be entered in proper books by the secretary. The secretary shall conduct all correspondence relating to the Association, shall issue all notices of meetings, and shall perform all duties pertaining to the office of secretary. The secretary shall keep a register of the members of the Association.

TREASURER

1. All moneys payable to the Club shall be paid to the treasurer of the Club. All moneys payable by the Club shall be paid by checks signed by the treasurer and one other officer. The treasurer shall report at each of the Club's meetings the condition of the treasury.

ARTICLE V
COMMITTEES

Section 1. Committees will be appointed by the president and serve the term needed.

ARTICLE VI
MEETINGS

Section 1. The Annual meeting of the Club shall take place the first Thursday of September of each year.

Section 2. There shall also be at least one meeting per month at a time and place to be set by the president.

Section 3. All committees shall meet at the discretion of the respective chairperson.

Section 4. A representative of 25% of the members will be considered a quorum. The quorum rule will only be in effect for Annual meetings.

Section 5. The bylaws may be adopted, amended, or repealed only at the Annual meeting.

ARTICLE VII
AMENDMENTS

Section 1. At all shows which the Laurentian Craft Club attends, a % of retail sales price shall be determined beforehand and added to the member's asking price.

Section 2. A minimum of 5% of the selling price shall be designated as a separate fund for damage and loss insurance. This insurance shall remain separate from the general fund as of the 1985 Annual meeting.

Section 3. The insurance fund will have a ceiling of 1,000.00 dollars. Any excess money will revert to the general fund.

Section 4. The monthly meeting will be presided over by the president. A secretary's and treasurer's report will be given.

Section 5. The president shall designate a daily show chairperson who will be responsible for distribution of space, and any and all duties required.

Section 6. A rotating call list shall be established. In the event there are not enough volunteers to work a sale, the member at the top of the list will be called. If a person does not work, or supply a responsible person to work for them, they will not be allowed to show at any Laurentian Craft Club show until they fulfill their obligation.

LAURENTIAN CRAFT CLUB

January 1, 1987	Total Cash Available		$1,536.37
June 23, 1987	Land of the Loon Festival - Virginia		
	Revenue	$4,527.99	
	Less Club Members	(3,837.11)	
		$ 690.88	
	Less Booth Rental	(240.00)	
	TOTAL INVESTMENT	**$ 450.88**	
July 1987	Chisholm All-Class Reunion, Calumet Festival & Hoyt Lakes Car Show		
	Revenue	$ 645.75	
	Less Club Members	(597.63)	
		$ 48.12	
	Less Booth Rental	(138.00)	
	TOTAL LOSS	**($ 89.88)**	
July 28, 1987	Duluth Concorde Show		
	Revenue	$1,155.53	
	Less Club Members	(905.70)	
		$ 249.83	
	Less Booth Rental	(100.00)	
	TOTAL INVESTMENT	**$ 149.83**	
November 7 & 8, 1988	Holiday Inn - Eveleth		
	Revenue	$4,626.38	
	Less Club Members	(4,201.75)	
		$ 424.63	
	Less Room Rental	(212.00)	
	Less Advertising Costs	(224.07)	
	TOTAL LOSS	**($ 11.44)**	
November 21 & 22, 1988	Wayzata Community Church		
	Revenue	$6,350.93	
	Less Club Members	(5,650.30)	
		$ 700.63	
	Less Rental	(-0-)	
	TOTAL INVESTMENT	**$ 700.63**	
	1987 TOTAL CLUB INVESTMENT		**$1,200.02**
	LESS 1987 TRAVEL EXPENSES		**(816.40)**
	1987 LAURENTIAN CRAFT CLUB		**$ 383.62**
January 1, 1988	Total Cash Available		$1,727.67

Mr. SIKORSKI. Barbara, do you want to begin?

Your entire statements, as you have prepared for us, will be put in the record.

You can summarize and draw attention to them but we want to keep the time limits on that we have, just so that we can get to some questions.

STATEMENT OF BARBARA BLADIN, BIWABIK COMMUNITY UNITED CHURCH OF CHRIST, BIWABIK, MN

Ms. BLADIN. Okay. Thank you, Congressman Sikorski.

I am one of those regular people that you were talking about so I am not really accustomed to addressing a House of Representatives Subcommittee.

But it is really exciting and we are really honored to think that some importance has been placed on what we have been doing for the past five years.

I would just like to, for those who are unfamiliar with North Country Craft Sale, explain that it started five years ago and it is quite unique because it is hosted by a Twin Cities church in Wayzata, and the United Community Church of Christ.

It is hosted exclusively for the artists and crafters of the Iron Range from Northeastern Minnesota.

Another unique feature is that the Wayzata Church does not charge the crafters. Usually a crafter has to pay somewhere between 30 per cent of the price of their object or say perhaps as much as $45 a table to have a craft sale.

So the fact that the Wayzata Church does not charge for this is real important for the crafter because they can then take at 100 per cent of what they make in Wayzata.

So in addition, the Church has paid for all of the costs of publicity. They host the crafters overnight. It is a two-day sale.

Usually for the past five years it has been held the weekend before Thanksgiving to sort of cash in on the Christmas shopping because these items make especially nice Christmas gifts.

The Wayzata Church supplies all the food. They even clean up and provide all the janitorial services.

Every November, the people from the Iron Range will travel the 200 miles south to the Twin Cities and sell their high quality handmade crafts to earn some extra money.

As much as $17,000 has been made during this two-day sale. We started in 1983 as a result of the economic crisis on the Iron Range.

Reverend Jim McCutcheon of the Wayzata United Church of Christ contacted the ministers, the co-ministers Bob and Ruth Beck, and asked if there was any way to help the people of the Iron Range.

Because of the covenantal relationship between the two churches, the Becks suggested that the Wayzata sale share their facilities and host this sale.

They knew there were a large amount of talented people who do these very nice handcrafts. So the first sale was put together very quickly.

Since that time, the Wayzata Church has worked very hard to ensure the success of that sale. We started off small, about 6,000 the first year, and then we created a monster that got too big.

Two years ago it was $17,000 and we purposely cut back because of the room. Bigger is not better when it comes to craft sales.

Mr. SIKORSKI. I have been there. It is impossible to get around.

Ms. BLADIN. Yes. So we cut back purposely so that we would give each crafter a little bit of room to move around.

And the good things that came from that sale is that the Laurentian Craft Club was formed. They are a very tight-knit group. They have rules. They work together.

Some of their members are handicapped or retired. The members that are able will then pack up all of the items, take them to different places.

They travel around the state during the year, as Grace's report details those sales. The only differences that at Wayzata there are zero expenses. So that is an important part of the Wayzata sale.

The Laurentian Club is serving as a model for other crafters that are loosely scattered around the Iron Range area to get together because rural people do not feel really comfortable coming down to urban areas.

But if they can get together and those that do not mind driving can drive for other people, it works a good cooperative effort.

Another good thing about the sale is that a lot of these crafts are sort of like a dying art. And because they are encouraged, because they get more money at Wayzata, it encourages them to continue these crafts.

One example would be this is a Finnish folk art. It is very thin wood shavings and it is planed off and curled. Then decorate designs. This is just one shape. There are many other shapes. You can get an idea of the work involved in this.

Unfortunately, there are not a lot of younger people who are continuing this craft. So the Wayzata sale sort of nurtures that, to continue on.

Another example of a craft that is kind of dying out would be the Scandinavian rag rugs which are made from recycled rags.

You take rags and sew them into strips and then it is woven on a loom.

Now this rug costs $16. It takes eight hours to make. So the crafter is getting $8 an hour. So if they have to put out a lot of money to sell this, they are not going to be making much per hour.

So we feel that the Wayzata craft sale really encourages the continuance of some of these important ethnic and cultural crafts.

I would just like to conclude in saying that three Iron Range organizations are working to expand the sale. One is the Iron Range Ecumenical Community Ministries together with the Voyagers, a crafters network operating in the Ely, Tower and Babbitt area and the Calumet Depot Project, a similar network of crafters just forming on the western Iron Range.

These three are working together to try and set up more than one Wayzata sale.

We feel that if they can set up three or four sales, they can make more money. There is no way that they can make enough money to live, but this supplements a lot of incomes.

It helps people buy a set of tires that they could not afford or have a Christmas that they might not be able to afford.

Although this is just a small project, we really feel that it is a way to help rangers stay on the Iron Range and that is where they want to be.

[The prepared statement of Ms. Bladin follows:]

TESTIMONY BY
Barbara Bladin
Before the Census and Population Subcommittee
Monday, June 13, 1988

Project: Wayzata North Country Craft Sale

The North Country Craft Sale was first held in December 1983 at the Wayzata United Church of Christ in Wayzata, MN. The sale has been held every year since then on the Saturday and Sunday before Thanksgiving. The sale is hosted by the Wayzata U.C.C. exclusively for the artists and crafters of the Iron Range in northeasten MN. For the past five year, the Rangers sell their high-quality handmade crafts in the Wayzata Church and are grateful for this opportunity.

The first sale total amounted to $6,000. In 1984 the total was $12,000; in 1985: $13,000; in 1986: $17,000 and last year $13,000 was the total amount.

The Wayzata sale is more than financially successful.

1) The sale provides the Iron Range crafters a market place, free of charge, in which to receive a profitable price for handmade articles in an area not affected by economic depression. The crafters keep 100 percent of the price from each article. Neither the Wayzata nor Biwabik church charges money to the crafters.

2) The sale brings together two very different groups of people who are usually separated by distance, state politics, and contrasting litestyles.

3) The sale encourages and nurtures important ethnic crafts threatened by modern technology.

4) The sale provides an opportunity for the larger Wayzata Chuch to share its wealth and resources with its "sister church" in Biwabik. The two churches co-operate in true Christian spirit to help people. It would be much easier just to give money, but the Wayzata church wisely understands that it's best to help people help themselves.

The sale provides a market

Arts and crafts are an important part of the range culture and there are many crafters who produce a variety of high-quality handmade articles. These people who love the land and nature believe that making things with your own hands is important. Between October and December, almost every chruch holds a bazaar abundant in baked goods, jellies, and arts and crafts. This abundance and availability of many crafts on the range make it a

difficult market in which to receive a fair price. In addition, the area is economically depressed. The sale in Wayzata provides more affluent customers who appreciate the products. Since crafters usually have to pay to be in a sale or else pay at least 20 to 30 percent at consignment places (as outlined in the Laurentian Report) the opportunity to keep 100 percent of the money earned is a valuable sale.

The sale brings together two very different groups of people

Over the past five years, many friendships have been formed between the rural crafters and the more sophisticated Twin Cities customers. An important interchange of caring and concern unfolds during the sale as city folks and Iron Rangers share their crafts and cultures with each other. In addition, the crafters are given a much-needed ego-boosting experience as their products are admired and purchased by the customers in Wayzata.

The sale encourages and nurtures important ethnic crafts threatened by modern technology

Many of the crafts sold in Wayzata have definite ethnic and cultural importance. **Example:** Finnish Losto Art. This art is a fragile wood shaving art which is in danger of not being passed on. Scandinavian rag rugs are abundant at the sale. One such crafter, Roseann Williams, spends at least one full day of weaving on a $16 rug. That does not count the time spent on preparing the loom. Roseann also hand cards and spins her own wool for knitting a sweater which takes a full week of work. The sweater brings a price of $79. Because of the many hours of work, most of the younger generation do not see the point of spending hours on a craft and not being able to at least make a fair profit. Being able to receive a fair price helps to encourage crafters to continue their creativity. Roseann now attends a vo-tech and has given up some of her craft work.

Why was the project started?

Northeastern MN., known as the Iron Range, is dependant upon the taconite industry which manufactures low-grade iron ore pellets for use by the steel industry. In 1980, the U.S. steel industry began a swift decline due to foreign imports. Many layoffs occured in the taconite mines which resulted in an abrupt economic depression.

In September of 1983 the Minister of the Wayzata United Church of Christ, Reverend McCutcheon, contacted the co-ministers of the Biwabik United Church of Christ, Bob and Ruth Beck, and

explained that his congregation wanted to help the people on the Iron Range in a positive way and not just to send money. The Reverends Bob and Ruth were aware of the abundance of artists and crafters without a profitable market and suggested to Wayzata to provide that market. Thus, the idea was born. In about six weeks Bob and Ruth worked very hard and single-handedly put together a group of crafters willing to give the idea a chance.

It was that dedication and hard work by the Becks and the Wayzata Church members which impressed me enough to get me involved in the sale. I have been involved as a helper in the Wayzata sale for four of five years now and I both enjoy and believe in this project. I am a member of the Biwabik United Church of Christ and would like to help continue the dream of the Becks to provide the Iron Range with some economic stability.

In 1980 my husband was laid off from Erie Mining. We both wanted to stay on the Range and finish raising our two daughters. Besides, we couldn't sell our home anyway since their was no reason to buy a home in a place with no jobs. We have both found jobs for less pay and managed to get by for a few years. I got a job in a department store which was a family-owned operation for 83 years. Because of the bad economy the store went bankrupt after 83 years of operation and I was laid off. I was angry that U.S. Steel seemed to control everyone's life and I didn't even work for them. So I was committed to help in any way to make this area independant in some small way from industry. Being involved in the Wayzata sale and being able to see Rangers earn extra money and supplement their earnings make me feel very happy. I could only dream that other churches would share their resources to make it possible for this type of sale. This project requires much hard work from both Biwabik and Wayzata Churches working together in a co-operative, Christian effort. Members of the Biwabik Church hold meetings of the crafters, provide transportation, load and unload crafts, set up and sell crafts for those crafters unable to travel to Wayzata.

The Wayzata Church members provide all the prior publicity, set up tables, cook meals and snacks for the crafters and arrange overnight accomodations for anyone needing a place to stay. Without the dedication, generosity, and hospitality of the Wayzata U.C.C. and especially Bob and Sally Staplin, Tom and Mary Walpred, just to name a few, the sale would not be successful. I cannot stress enough how hard they all work in Wayzata on behalf of the Iron Range. The crafters have only to provide their gas money for the trip. Everything else is taken care of and paid for by the Wayzata Church. The crafters have continued to create and maintain high quality crafts and provide well made and unique crafts.

Project Successes

Besides the obvious financial benefits there have been other successes from the sale including:

1) The Laurentian Craft Club was formed after the first sale.
2) The Range Quilters Club was formed after the first sale
3) Because of the publicity of the sale, the Twin Cities area is made aware of problems on the Range. So, other churches in addition to Wayzata have sent continuous, generous contribution to the Range Food Shelves.

Future Plans

The Wayzata Church is currently working to expand the one sale into three or four at other church locations during the year.

1) They have contacted other churches to host similar sales
2) They want to set up some type of professional marketing of north country crafts such as catalogues, craft co-ops and for lack of a better name "cottage industry."
3) They want to educate the crafters to create products which are in demand and to increase profits.

The Biwabik Community U.C.C. is a member of the Iron Range Community Ecumenical Ministry (IRCEM). There are eight churches involved in this ministry and currently IRCEM is working to establish a network for the small clusters of crafters and those who work individually.

IRCEM has a staff person, Jean Levis, who is working with crafters from the "Voyageurs" of Ely, MN and crafters from the West Iron Range in Calumet. IRCEM has the time and expertise to work toward creating ways to network the crafters for sales and for education.

This type of sale could be duplicated in almost any large church willing to work and prepare for it. There should be a stable economy for the host chuch and plenty of room for the sale. If the host church works as hard as Wayzata then their sale would be successful.

The Community United Church of Christ

Corner Fifth Avenue and Main Street
P. O. Box 649
BIWABIK, MINNESOTA 55708

Telephone: Area Code 218
Parsonage 865-6193
Church and Study 865-6621

Sample letters
sent to Crafters

September 29, 1986

Dear Crafters:

The date for our Wayzata Community Church Craft Sale is drawing closer and, during this time of preparation, we thought it important to share these details with you.

First, the actual date at Wayzata is Nov. 22 & 23rd. As in the past, our friends at Wayzata Community Church are willing to help us with housing, so if you are going to the sale and need a place to stay, please let us know by Oct. 15th.

Secondly, if you would like to send a limited number of samples to Wayzata, Rev. Ruth Beck will be heading there on Oct. 19th. Any materials you desire to send ahead as samples should reach Ruth at Community United Church of Christ, 5th & Main St. in Biwabik by Oct. 13th. They can be delivered to the church, with an inventory sheet marked SAMPLES on Monday, Oct. 13th, 9:30 a.m. - 5:00 p.m.

Thirdly, we will need to know exactly who will be going to Wayzata to demonstrate a craft or art form. If you plan on doing this, approximately how much room will you need? Would you have a black & white photo we could use for publicity purposes? We could use these photos by Oct. 7th.

Fourthly, if you are going to send things to Wayzata Community Church but are not able to attend, some laypeople from Community U.C.C. in Biwabik are willing to take your items to the sale. However, we would like you to use the enclosed inventory form so that we have a standardized form. You'll note that there is a place on the form called "Basic price". This means that if you have flexibility in pricing, we should know this. For instance, if you have an item you tag at $7.50, but if sales are going poorly, we can drop the price to perhaps $5.00 and still have you making a profit, then please note that on your inventory sheet. If there is NO pricing flexibility, then indicate NONE in that column.

Fifthly, the volunteers from Community U.C.C. would appreciate it if you would include the price of taxes in your tag price and then be responsible for handling taxes yourself -- based on what you have sold. For instance, if you have an ornament for which you plan to charge $2.00, please mark it $2.25 and note on tag that tax is included. Of course, clothing items are not taxable nor is food. The church volunteers do not wish to get involved in dealing with taxes.

For folks who are expecting Community U.C.C. laypeople to take your crafts/art to Wayzata, please note that your items and completed inventory sheets are due to Community U.C.C., 5th & Main St. in Biwabik on Monday or Tuesday, November 17th or 18th. We will not be able to handle your items if you cannot

get them to us (unless there are extenuating circumstances). We will not be responsible for any items if you do not use our inventory forms. Please make yourself one copy to keep and give us two copies. Use either carbon paper or feel free to "xerox" two copies. As in the past, we will be happy to take your crafts to Wayzata, display them, explain them if necessary, and we will be glad to accept contributions to our gasoline expenses. The church in Wayzata and our church clearly see this sale as one of our ministries to its community, but like most institutions in our area, we cannot underwrite the expenses of our volunteers. So if you can help with the mileage after we return, that will be great.

Finally, for crafters who send their crafts with laypeople from Community U.C.C., we would ask you to pick-up your crafts which did not sell on Monday, Dec. 1st - the Monday after Thanksgiving. This will give us an opportunity to get the finances straight and have you claim your unsold crafts and your money at the same time.

If you have any questions, feel free to call Ruth Beck at 865-6193 or Shirley Henderson at 865-6491.

Sincerely,

Ruth Beck & Shirley Henderson.

Ruth Beck and Shirley Henderson

The Community United Church of Christ
Corner Fifth Avenue and Main Street
P. O. Box 649
BIWABIK, MINNESOTA 55708
Telephone: Area Code 218
Parsonage 865-6193
Church and Study 865-6621

How To Set-up
A Church Craft Sale:
Given to Voyageurs + Calumet Crafters to help set-up A "Wayzata Sale"

1. Find a church.

2. Establish a contact person or paersons who will be the organizer in that church - who will be there at set-up time?

3. Set up the date and time of the sale and contact the crafters as soon as possible.

4. Find out measurements of the room(s) and tables to be used. Make a "floorplan" and assign crafters to tables. Send a copy to the church and keep a few copies for the group.

5. Find out about janitorial services. Who will clean up? Will all of the tables be available? Let crafters know that their help will be needed after the sale to clean up.

6. Organize publicity. Will the host church do this? Use posters, church newsletters, radio, TV, church announcements, etc.

7. Decide how the money will be handled:
   - will there be one pay station or will each crafter take care of his own table?
   - will the crafters have a tax number?
   - who will keep the books?

   We use inventory sheets. Each crater makes three copies of his own inventory. The Laurentians use a number system - a hang tag on each item with the crafter's number.

8. Send samples to the church prior to sale.

9. Organize meals for crafters.

10. Plan overnight accomodations for crafters if needed.

11. Send a letter to each crafter explaining the sale. Get a committment from crafters and hold a few meetings if necessary.

12. Send a thank you letter to the host church and include the results of the sale.

Mr. SIKORSKI. Yes. We hope, and we will work with you, that metropolitan sales could easily sustain five sales like the Wayzata sale.

We will get back to you in questions. Ruth Beck is here. You were the minister in the church when it first started. Very good. She moved to Stillwater. She is part of the migration pattern. We are glad to have you, and we are also glad that you are still interested in the communities that you have served.

Our next witness is Vi Velta who is from Winnebago and will share with us a story that I mentioned earlier about Winnebago people joining together to create employment in their town.

She is accompanied by Pat Burkett who was Vice President of Stop Gap, the employee-owned company that they are going to talk about.

STATEMENT OF VI VELTA, STOP GAP, WINNEBAGO, MN

Ms. VELTA. Congressman Sikorski, my name is Violet Velta and I reside at R.R. No. 2, Winnebago, in Faribault County, Minnesota.

My husband works for Grainland Co-op in Delavan and Winnebago. Until recently, I was a Stop Gap plant manager.

My purpose in being here today is to share with you and other committee members the story of Winnebago, a rural community that survived the agricultural crisis the past few years.

I, along with 200 others from about an area of about a 25-mile radius around Winnebago, was employed by Electro-Craft.

In December 1985, which was a major employer in the community, announced it was closing the Winnebago plant and consolidating the manufacture of precision electronic and electro-mechanical products at Amery, Wisconsin and Hopkins, Minnesota.

Before Electro-Craft closed its doors, it provided dollars to see that the employees could have the assistance of the South Central Minnesota Private Industry Council to assist us in the development of our job skills for other employment or also offered jobs in Wisconsin.

Through job clubs we were able to look at the area vocational-technical schools, help in preparing our résumé, and perhaps most importantly it taught us the future of our employment was up to us.

We needed to decide how we could find jobs to continue to live in the Winnebago area. Only about 20 people went out into Hopkins and Wisconsin.

We knew we were people with a strong work ethic. In fact, we can share with you true stories about people going to work in snow storms and so forth.

It was not our job performance that caused the company's consolidation. Again, we were determined to continue to live in the Winnebago area.

Not only did the Electro-Craft closing cause problems with the people employed there but the loss of jobs had an immediate effect on the entire community.

Faribault County, population 18,000, was just beginning to feel the effects of the agriculture crisis. Several main street businesses

in Winnebago were closed. There was not enough dollars to go around.

Other companies either moved or reduced the number of their employees. And the county in 1986 took action and hired an economic development coordinator to help in finding other companies to locate here and to produce jobs.

The Faribault County Development Agency got involved in helping the former Electro-Craft employees while at the same time searching for an industry to use a 28,000 square foot building.

About the time we were just beginning to rally together, the Region Nine Development Commission was involved with KSTP-TV in presenting a documentary about Madelia, Minnesota called "Foreclosing on a Dream."

A St. Paul employment company contacted Region Nine after seeing the KSTP program. They had the idea of taking out-of-work people to the Twin Cities during the week or for weekends to employ them, provide housing and then allowing the people to return home for several days in-between jobs. This worked okay briefly but did not cause many people to leave the area.

What the St. Paul company did find is rural workers were in tremendous demand. Again, that rural work ethic was almost unbelievable.

When the St. Paul company found how successful the rural workers were, and also how determined they were to live outstate, they changed their tactics.

The employment company traveled to Region Nine looking for a building to locate jobs in. To our delight, and much negotiation by the Region Nine staff, they selected the former Electro-Craft building in Winnebago.

During this period, we used our telephone tree and other job-seeking skills that we had learned. When a packaging project took half the time they thought it would, based on metropolitan estimates, they came back to us with other jobs to do.

But let's go back up a minute as I have not shared with you what happened in Winnebago as a result of this project. In the packet of information, you can read about the entire community working together.

For the first time in about five months we saw maybe there was a way to keep jobs in our area so people would not have to move. Unfortunately, we worked ourselves right out of a job.

We completed our job in half the time they expected it to take. The experience confirmed that we were responsible employees with job skills.

We then got together with an idea that had kind of been on the back burner for some time. And again with the encouragement of several agencies, we decided to form our own company.

I will never forget those many, many, many meetings—as we decided to establish what is now incorporated as Stop Gap.

Picture, if you will, a group of people, some working part-time, some working full-time, some not working at all, meeting to decide on a business plan.

We still were unsure as to exactly what our business was going to be. We identified our skills personally and collectively.

Then we decided to other companies to do whatever kind of a job that they would pay us to do. As we discussed rent, garbage, whether we could afford to be in an air-conditioned building and actually turn the air conditioner on, wages, and how to hire people. We learned telemarketing by practicing on each other.

While local business people were agreeing to pay part of our legal fees and were helping us find a suitable building and equipment, it was like a light that turned on all of the community.

As we asked the City Council and the Chamber to help us, we could see others lose that sense of not surviving. Now, I am not saying the former Electro-Craft employees entirely caused the 180-degree turnaround in the community, but our attitude sure helped others work on survival instead of defeat.

Stop Gap, Inc., received funding from the Fairbault County Redevelopment Agency, risk capital which local lenders could not provide.

Winnebago businessmen came forward and offered us equipment to use. Even Electro-Craft got into the act as they gave us all of the remaining work tables, stools, etc. from the building which although it was empty was now too expensive for our operation.

Hours and hours of volunteer time went into getting Stop-Gap operational. During the months we were in operation we put $12,000 in wages into the area. Both management and line workers received the same rate of pay of $3.50 per hour. Over 50 people had part-time jobs with Stop-Gap.

Unfortunately or fortunately some of the other projects being worked on in community became reality. A number of companies decided to locate or relocate in Winnebago, perhaps somewhat due to the media coverage of what good workers were here. As people left Stop-Gap to take other jobs, where they received more pay plus fringe benefits, we were caught short of enough workers and contracts all at the same time. We were missing one key ingredient—a business manager. We needed someone to manage Stop-Gap as we had gone as far as we could.

With most people having other jobs we decided to close the doors while we could still repay the county for some of the money it had invested in us. Although the Redevelopment Agency was not hassling us for the dollars. In fact if you ask its director Jack Quinlivan, who is here today, he'll tell you what a good investment he feels the agency made. Think of the employees now available who had a taste of what its like to be on the other side of the fence—owning a small business.

Was Stop-Gap a success or a failure? For us so directly involved we still feel badly we aren't today a business. The other side of the coin—is to look at the rural work ethic—what can happen if people can continue to live and work outstate as they want to. Also, look at what happened to an entire community by people working together, whether it be individuals or agencies.

There is still hope for the future. Ideally, a university or someone could use the Stop-Gap corporation as a training ground for future business leaders.

For now, the future looks bright. We have weathered the storm while learning new job skills and enhancing many people's self-esteem.

The majority of buildings in Winnebago are again filled and our population is increasing. Instead of seeing a for sale sign out, you now hear people visiting about who their new neighbors are, wondering which one of the new companies they are working for.

Thank you for the opportunity to visit with you today. Pat Burkett, a co-worker of mine, is also here should you have any questions.

I have also brought with me letters and copies of the news coverage which I request be submitted as part of my testimony and I would like to add to this testimony the letter from the Faribault County Development Agency.

[The letter referred to follows. The numerous newspaper articles were retained in the official hearing file.]

Region Nine
DEVELOPMENT COMMISSION R9
410 S. 5th St., P.O. Box 3367, Mankato, Minnesota 56001

(507) 387-5643 (800) 722-9389

June 7, 1988

Congressman Gerry Sikorski
Census and Population Committee Member
608 House Office Building Annex 1
Washington. D.C. 20515

Dear Congressman Sikorski:

The Region Nine Development Commission appreciates the opportunity to be involved with the Winnebago area residents testifying before you. Mrs. Vi Velta and Mrs. Pat Burkett are significant representatives of outstate, rural employees with a strong work ethic, who wish to remain in rural Minnesota.

Winnebago is not the only community within our nine-county area the Region Nine Development Commission has been involved with to keep rural communities strong and economically viable. But, we do feel this community has overcome adverse conditions and has economic growth occurring to build a strong future. We are proud of the role we had in this effort.

Winnebago used to be a community filled with negative feelings. Now the residents are optimistic about the future as new employees move in and more jobs become available.

Without a doubt we are continually seeing communities 'pull themselves up by their bootstraps' and go on. People who live outstate want to remain there. With the assistance of programs like the 504 SBA, Job Services, Small Business Development Centers and others this will be possible. We see the Region Nine Development Commission's role as a catalyst - pulling all of these programs together while showing community leaders how to use them.

The former Electro-Craft workers started the ball rolling for the community to survive. We only reinforced their positive thoughts as we brought them together with ours and other agencies who could help. Vi Velta, Pat Burkett and many others were the ones who made Winnebago's future-look bright-rather than doomed. Government does not have to do everything. It only has to be there to help!

Sincerely,

Terry Stone

Terry Stone
Executive Director
Region Nine Development
Commission

Mr. SIKORSKI. Very good.

Vi, you basically worked yourself out of a job. People left for better jobs, better benefits, better pay and other things, and you take somewhat of an impartial view as to whether the Stop Gap was successful or unsuccessful.

I think you should be very proud of that effort, and you should pat yourselves on the back because it clearly was successful.

It gave people encouragement. It dealt with immediate economic difficulty that people had. You succeeded in doing the work at a faster pace and as effective as any workers anywhere could have done.

And for all those reasons and others, you should feel very, very good about what Stop Gap accomplished. And you are still helping other people by coming here and magnifying it across the country.

Both you and Pat should be proud.

Our next witness is Perry Nelson, a hog farmer with a masters degree in physics, who will testify about his hog processing plant in New London.

The plant, developed with community support, is keeping jobs and money in rural Minnesota, and we are pleased that you are with us here today, Perry.

STATEMENT OF PERRY NELSON, HOG FARMER, SHAKOPEE FARMS, NEW LONDON, MN

Mr. NELSON. Thank you, sir. I am pleased to be here.

I would like to share with you a little of the story of how our processing plant came to be and what has happened is the focus of that has gotten far bigger than just our little region.

Several years ago—well, I have been back in hog farming now for ten years. And I laughingly say there is a connection between physics and hog farming. It is just the business aspect of it, I guess, that does tie back.

But sometimes my wife wonders.

In a nutshell, I had a rather complete marketing background in Los Angeles and so I always felt there was room for the individual or small groups of farmers to market their own products directly as opposed to fitting into the present system.

In retrospect now, that system is important. There is very much a need and room for the middleman. It is impossible for farmers, in a nutshell, to develop a very large scale, adding processing to their commodities without fitting into the present system somehow.

But I was doing local marketing of our own hog products by using a custom processor in the local area. And in order to make that business get beyond—added just some additional income needed to take the step of putting up my own processing plant.

The question becomes with all of these added-value jobs of what are your goals? Is it going to support your family or is it going to be just added income to support the additional purchases for Christmas or something like this.

Well, we made the bet that it could do quite a bit more than just support the additional purchases, that it could be a full-time job not only for ourselves in our business, my family, but that within

our community that it could provide a lot of jobs if we were successful at it.

So in order to do that, I have always been impressed with the fact that there are a lot of people who want to stay in rural America. That is not just the people who are in population agriculture but the support industries that are all there.

And if you look at that, they exist there because of the balance of trade, is what I call, between the metro and the rural areas.

Until we can improve that balance of trade outbound, the next generation of doctors and lawyers who wish to live in a less densely population won't have that opportunity.

Economically they can't afford it.

So therefore I went to all the local businessmen in our little town of New London and said would you care to join me economically on this project. I cannot absorb the full impact of building a meat processing plant and going through the marketing and the research to do it.

I've got the product line ready to go. I've got my own supply of raw materials. I think I've got the expertise to run it, but I need economics.

In the course of that time, I sold 50 per cent of the stock ownership to the local businessmen downtown. Everybody from the doctor to the banker to the insurance salesman and the bus driver pitched in for X-number of shares.

it is a very legitimate operation. We have a full Board of Directors and I am President and CEO, I guess, and janitor.

And along the way attracted also interest from the Southwest Minnesota Initiative Fund. We received their maximum of low interest loans as a private loan of $70,000 at 5 per cent money which we then got our local bank to match, also; not at the same interest rate but at the same amount.

And so funding for the place came very much private and very much local. We attracted—part of the interest there grew because of the fact that as the town fathers got behind and with me on this, it revitalized their group as a new development agency and they in turn bought an 80-acre development park of which we became the first entrant in.

So hopefully we can attract other businesses. Now I am a member of that group, also.

In the course of time, Southwest Initiative saw that we were really a model of something that they had talked about for a long time.

That one of the ways of keeping jobs out in rural America and in adding to them is this balance of trade, of putting added value to what our most common product is: agriculture commodities. That is still the background, the basis of what is going on out there in rural America.

Why ship it to the very few places, in our case hogs, that exist for putting on added value, the Hormels and the farmlands.

Mr. SIKORSKI. The Tribune had a big article yesterday. I don't know if you got to see that.

Mr. NELSON. I did not see that.

Mr. SIKORSKI. It was on the added value. It follows actually in part the hog processing operation.

Mr. NELSON. I have seen that in a hog magazine, yes.

Mr. SIKORSKI. And yesterday's Tribune has a major article showing the pennies that the farmer gets to the final product.

Mr. NELSON. Very good.

Anyway, they have talked about this for a long time, how do you get somebody to try added value onto raw agricultural products in a rural setting, and then cross the hurdle of marketing into the regions that will buy it, metropolitan regions.

You have to go where people are.

We stepped in therefore as somebody who was coming from the other side of the coin. We were ready to do it. So they joined us very quickly on that.

And in turn suggested that we were underfinanced and that this marketing hurdle was our biggest hurdle. Got us in touch with the Northwest Area Foundation, another private group.

And just as of this past Friday, received a 75,000 grant from them to proceed with an additional marketing/sales effort.

We are four and a half months old. We employ eleven people that were not hired from before that were actively selling through a distributor into the Minneapolis/St. Paul region.

Got a possible contract going with a company who does nationwide work out in Los Angeles because of my former contacts.

And at this point we came darn close to losing it but the grant, I think, will get us over the hurdle. We have spoken with the Greater Minnesota Corporation on new product development.

I guess we came in 16th on their list of 50 applicants. And I say this with a little tongue in cheek because I talked with them about this. They are planning for five for five years out with research projects.

And my claim is there should be something to help the in-between groups like myself. We are ready to bring out products in six months.

So there needs to be a little additional on that.

[Statement of Mr. Nelson follows:]

Shakopee Farms Meats
New London, Mn. 56273
June 1, 1988

Congressman Jerry Sikorski

Dear Mr. Sikorski,

Thank you for the invitation to testify at your hearing on "Population Shifts". The following is my written testimony on our new business and its present impact on local employment and "balance-of-trade". I will follow in general your recommended outline.

I. Personal

My name is Perry Nelson, I live in New London, Minn. and my occupation is and has been for the last 10 years that of hog farmer. My background prior to that time includes a Masters degree in physics and 15 years of work in the Los Angeles, Cal. area, in both semiconductor research and sales and marketing. I grew up on a farm in the New London area and when we decided to move in 1978, felt I could compete in the Ag Marketplace.

II. Background Description of Our Project.

We started up a hog production farm in 1978, selling the live animals to the major processors like all other farmers. My background in sales and marketing, however, led me to consider selling the live animals from our farm as final labeled consumer ready products. I had experimented in selling retail pork products using a custom processor and in 1987 decided to cross the hurdle and build our own pork processing plant. We obtained financing from a variety of sources, did our initial market surveys, and broke ground in Oct. 1987. The crucial part of this stage, from a community standpoint, is the financing from local investors. I sold 50% of the ownership to local businessmen and as a result the project took on a more community aspect. We obtained private loans from the SW Minn. Init. Fund and a local bank and thus the project is completely private financed but with a community-wide effort.

The hog processing plant, Shakopee Farms Meats, was built, USDA inspected, and opened on Jan 15, 1988. Since then we have progressed in 4 1/2 months to selling the packaged, labeled products from 60 plus hogs per week into the Mpls-St.Paul marketplace. The plant presently employs 4 full-time and 4 part-time employees and our farm employs 2 full-time people.

III. Project Importance.

Our processing plant is not only important to me personally but is also of great importance as a model for rural added-value processing of farm commodities. We are breaking new ground by bringing out a new brand name meat product, by attempting to compete against the major processing plants, and by attempting to add jobs and more income to a rural area instead

BEST AVAILABLE COPY

of shipping our raw commodity to a metro area for further processing. We are being forced to prove that metro markets will accept a new brand name and that we can market our products from a distance.

At the moment we have received monetary supoort from the SW Minn. Init. Fund and verbal support form the NW Area Foundation and the Minn. Food Assoc. I have agreed to let our project serve as a model of rural added-value processino and will be working with those groups to better understand the realities and limits of each part of our business as we prow. The result of this study, sometime in the future, will be to see what the risks, benefits and rewards could be for other small rural areas to duplicate what we are doing.

Sincerely,

Perry Nelson

Perry Nelson

PN/bz

Mr. SIKORSKI. Sounds good to me. Terry Montgomery is here. You will get a chance to lobby him further. [Laughter]

Thanks, Perry. We will get to questions in a minute.

Dan Edgar is our last panelist in this panel and has been and is the advocate. He is a farmer from Glenwood, and he serves as an advocate for rural people facing economic distress who do not simply know where else to turn.

And your project, as I understand it, is partly financed through the St. Paul Diocese, is that correct?

STATEMENT OF DAN EDGAR, CENTRAL MINNESOTA FARM RURAL PROJECT, GLENWOOD, MN

Mr. EDGAR. Well, it is administered by the Catholic Charities of the Diocese of St. Paul. It is funded entirely by grants from corporations such as Norwest Foundation.

Mr. SIKORSKI. Good.

Mr. EDGAR. We started out with a grant from the Bremmer Foundation. And there are several other ones. The Initiative Fund, we have gotten some funding from there and Pioneer.

So it is funded entirely by foundations. I guess the area I was thinking of that I would like to talk about is the people that I work with generally need to raise money one way or another.

That is why they want to see me in the first place. And one of the options they have is trying to find off-farm employment.

And out in the area where I live around Glenwood I find there is a very significant number of people that have off-farm jobs; either the husband or the wife or sometimes both of them.

And that puts quite a strain on their family because of the amount of time that they are gone from the home. There is also the employment possibilities out in the rural areas. I don't think it is really that great.

We have been fortunate in our area. We have a very active development group that has been in Glenwood since in the 1950s.

Last year now the county has organized its own development committee. I guess I think that is one of the—I guess I would like to see that as a wave of the future; that rather than to have each community competing against themselves, that they kind of work together so that some jobs out there, you know, if the neighboring town gets it is maybe not as good as having it in your own town but it is better than if it is somewhere else.

I am aware that during the past year the development person from the Chamber of Commerce in Glenwood actually helped a business in Valarde. Valarde is a small community of about 100 or so people.

And they had an industry in there and this particular person was going to expand and there was some incentive for him to move out of town, out of state even.

But through the help of the development person from the Chamber of Commerce in Glenwood, they were able to keep this business in Valarde.

And also there is quite a bit of cooperation in the school districts which we did not find before. I guess survival tends to make people forget about some of their old rivalries.

Part of it, I guess, is some of the reason why we are losing our population is not only the farm crisis that we are experiencing now but farming has become a lot less labor- intensive and people have smaller families and lower population has affected the businesses in town as well.

So there is not the demand and with the accessibility of these shopping centers, people have developed a habit of going out of town to buy their things.

So we have a number of communities out there where there is virtually no businesses left at all. Most of these, of course, if there is no businesses there is going to be no push for economic development.

So those are getting to the point where they just have some retired people. There might be a few other ones but they are next to being nonexistent as towns.

So I am hoping that the state and the Federal Government will do some more as far as the economic development grants.

I think some of these I am aware of like Glenwood two years ago got a grant from the state that they can keep regenerating. I forget what it is called right now. But it was like about $200,000, something like that.

And they have put that to good work. About two years ago, one of our major employees went broke and they were able to, within about six months, get someone to buy the plant.

They got a new industry in there. The amount of jobs it created by the one was wiped out when this other one went out of business.

So right now I would guess there must be close to 300 industrial jobs in Glenwood.

[The prepared statement of Mr. Edgar follows:]

To the Honorable members of the House Subcommittee on Census and Population:

I am Dan Edgar and I am 45 years old and I have lived in a rural area all of my life. I have lived on a farm near Glenwood, Minnesota since 1954. I graduated from Glenwood High School in 1961. I served six years in the Minnesota National Guard. I was president of the Pope County Farm Bureau for five years. I was chairman of the Glenwood Township Zonning Commission for two years. I am currently one of the trained mediators for Pope County. I have been active in my parish for a number of years. I have been the Grand Knight of the local Knight's of Columbus for two years. I have been a Lector for eight years, head usher for seven years, and served on the Parish Life Committee for about five years. I currently serve on the Board of the Rural Education and Resource Center in Elbow Lake and on the Pope County Project Care Advisory Committee for the Alexandria Technical Institute. I am an active farmer. This year I have about one hundred acres of crops and thirty two head of beef cows. I also work part time for Caritas Family Services, an agency of Catholic Charities of the Diocese of Saint Cloud, as a Farm Peer Counselor in the Central Minnesota Farm/Rural Project.

The Central Minnesota Farm/Rural Project was begun in 1985 in the Diocese of Saint Cloud, which covers sixteen counties in Central Minnesota, to help hurting families in the area. The Project is ecumenical in scope and all services are offered at no charge to the client. The program was started because it was apparent that a significant number of farmers were facing possible forclosure or a high degree of financial stress. In conjunction with this, a significant number of rural businesses were also being lost. The obvious conclusion is a loss of population in the rural areas. Catholic Charities wanted to minister to these people in transition and to be a force in the effort to stabilize the rural situation.

The major philosophies of the Project are to strengthen and unite, rather than duplicate existing services; to remain non-political; to build bridges of understanding; to rebuild a spirit of community and to empower and commission local people to carry on the goals of the Project.

The goals of the Project are: A. To develop a network of peer counselors to provide outreach, offer support, counsel, and resources to those in need. B. To develop farm financial counseling services that are both creative and consulative to indivual farmers and the staff. C. To conduct stress management workshops in the area in conjunction with other agencies or as needed. D. to provide small group training sessions for clergy and church leaders to help them indentify persons under stress, respond to the stress and make appropriate referrals. E. To increase professional counseling to persons impacted by the rural crisis. F. To develop community support groups and recruit, train and supervise facilitators for these groups. G. To network and coordinate project services, county extension offices, vocational schools, mental health services, farm organizations, and interested persons to strengthen the effectiveness of helping services. H. To develop an advisory committee representing farmers, local businesses, banks or credit systems, pastors, rural and urban concerned persons, a professional counselor, and a member of the Catholic Charities Board.

I have had a desire to do this type of work for a long time. I was looking for a change in 1985 when this position became available. I was interviewed for the job and accepted. We had several days of intensive training and regular training on an ongoing basis. I knew Mary Jean Schlegel, the director of Caritas, before I applied for the job. Earlier that year, she was looking for a meeting in the area where she might have an opportunity to meet and visit with some farmers and other concerned rural people. I arranged a meeting for her in Glenwood. What she saw and heard at that and other similiar meetings were some of the major factors that caused the Central Minnesota Farm/Rural Project to come into being.

The major part of the Project is the peer counseling. It is in this area where we have the most direct contact with the hurting people in our area. The approach I use in dealing with families is to work through a series of steps. The first is crisis intervention. I ask myself, why are they calling today? What is going on in this family right now? Does it require immediate attention? Who needs to be involved to alleviate the situation? After responding to those issues, we look at what the short term and the long term needs are, what their goals are, what are some options, andwhat needs to be done first. We then look at resources that are available

to carry out the options. We then look to where they need to go, and who is available to best help them in their decision. I also check to see if they are able to connect with these resources by themselves, or if they need someone to advocate for them. It is better if they can follow through on their own, but we also recognize that many times people need the support of someone else at times like this. One of our objectives is that people are empowered to act on their own to complete the decisions that are necessary in their lives. We recognize that empowerment sometimes takes a little time and may happen gradually, a little at a time.

The second component is the financial consultant. The financial consultant does a more indepth look at the finances and is usually referred by one of the peer counselors. He also functions in many ways like the peer counselors. We are fortunate to have Ken Neeser, who is a former county extension agent. He also took the mediation training for the state mediation program a couple years ago. Ken has a diverse background and has been trained in some of the various financial programs that are available such as the Fin Pack program, a computer analysis program developed by the University of Minnesota.

We have generally tried to combine the next two components of the project, the stress workshops and the support groups. We have about a dozen groups that are functioning now. In the support group meetings, we usually have a program the first part of the meeting, such as a speaker or a video. The program is generally on a topic that members of the group have expressed an interest. We try to have some discussion as part of the program, then take some time for coffee and cookies and some socializing. We have noticed some dramatic changes in some people during the course of these meetings. We provide a safe place for people to come and release some of the anger and frustrations that build up under severe stress. I think we also offer the gift of hope. This hope comes from concern and kindness of others and sometimes their stories of survival in similar circumstances. We believe that fostering a spirit of community in these trying times is essential to survival in the rural areas.

Lastly, we have the clergy workshops. Small groups of clergy of different faiths meeting together to try to help to minister to the people in need in their local community. We try to help them by sensitizing them to what is going on in the rural areas and by providing support and encouraging them to support one another.

Last year, 1987, we worked with 214 families and when the total number in each family is included, it is a total of 1,001 persons. We had 1,339 people attend 177 support group meetings. We had 543 unduplicated network contacts. That is, just one contact with each person, although there were many contacts with the same people. There were 11 clergy workshops with 105 clergy attending. That is kind of a snapshot as far as numbers go. That is only part of the story. Sometimes a client requires a lot of time and at other times meeting with just one person can be productive. I have gone 30 miles or more to a meeting and only one person was there. But that one person needed someone right then. I consider some of the one person support group meetings the most satisfying because of that.

As I look at my almost three years with the project, I would say that I have seen no failures. I believe that almost all the families we have worked with have gotten something. Certainly, some have been a lot more satisfying than others. I have noticed something positive in just about all the families I have worked with. I have worked with about fifty families since I began in December of 1985. Some have been short, looking for answers to questions, others have been more intense over a longer period of time.

I had one suicide among the families I have worked with. I see the positive side of that situation. A family is functioning very well inspite of a family tragedy. Some families are somewhat disfunctional. It takes a long time to overcome some of these difficulties. Some of the most satisfying experiences that I have had are when we were able to indentify problems in families and helped to resolve some of them. Sometimes the issues we deal with are not directly related to the financial. I have helped to settle some creditor disputes and also helped to resolve some problems with bad checks. I think we need more outreach work to help people who are experiencing hard times to be productive again. In effect, help them to be taxpayers instead of recipients of tax dollars.

When the project began, we had a staff of a coordinator, a financial consultant, a support group resource person, and six peer counselors. The Farm/Rural Project was one of the first of its kind. We had to adapt some as we went along. Later a seventh peer counselor was added and additional five counties were added because of where we receive some of our grant money. Currently,

we have five peer counselors, some working half time or more. Our project has been a model for others that begun in other areas. The Minnesota Catholic Conference has established a Rural Coodination Project to bring together the various programs that are functioning in the six Dioceses of the state. It is recognized that in order for these programs to continue to receive funding, they must be innovative and avoid duplication. There is general agreement among those of us who are working in these different programs of the Dioceses, that there is an ongoing need for these types of programs in the future. It is also recognized that these need to be able to adapt to the changing situations. Our Farm/Rural Project is funded almost entirely by grants. There are several reasons for funding it this way. Among them, it makes the Project broader and lessens the chance that some might think it is only for Catholics. The problem with this type of funding is that most foundations tend to limit their funding to a year or two whether or not the need is diminished. We are hopeful that we will be able to secure funding long enough to be around as long as there is a great need for us. We operate with faith that we are doing the Lord's work and that we are here to be of service.

I believe that there are a number of reasons for our success. First of all, the way the Project is structured, there is strong supervision and support. I do not think that I could have functioned very long if I was way out there all alone. We have had excellent training and the people hired were carefully screened. We are a very close knit group and we all get along with each other really well. We are also very supportive of each other. I think the networking we have done has helped us be better known. We have people that will recommend us to their clients. Caritas and Catholic Charities have a fine reputation and that has given us credibility from the beginning. We have since established credibility in our own right. The people who have worked with the Project since its began are all dedicated to helping others and making this area a better place to live.

I believe that there is a great need for outreach work out in the countryside. The larger cities have advocacy programs to help people locate and connect with resources. In the rural areas, there isn't as much help available. I think there are several reasons for this. First of all, the possible clients are spread out over a wide area which puts a lot of stress on the workers and

makes it difficult to be known. There is a high turnover of staff. The more well qualified people tend to look for less stressful and better paying jobs available in the larger cities. We are grateful to dedicated people, who, inspite of adversity, choose to stay in the rural areas. The sense of isolation can be much greater in the rural areas for both staff and clients, the feeling that I am the only one out here.

I would suggest that before a program such as ours, is begun in an area, that one must first access the need that are present and target what needs the program should address. The expectations should be realistic. For example, if we had set as our goal, keeping every farmer on the land, solving every problem satisfactorily in a short time, and in short, solving the entire crisis by ourselves, we would have disappeared a long time ago. There is only so much that we can do. We are not God, we just do what we can and pray that God will give us the wisdom and insight to be helpful. We recognize that we are only human, and as such, we can not know everything and sometimes we will make mistakes. One has to be willing to learn from others and to be willing to adapt to the circumstances of the moment. One has to be versatile. One of the most astounding things that I have seen is that the needs for each family seem to be different. If I am to be helpful, I must be able to identify and respond to these different situations. One should try not to compete with existing programs.

I wish to thank you for the opportunity to appear before this Sub Committee. I am grateful for the opportunity to share some of what the Central Minnesota Farm/Rural Project is about.

Mr. SIKORSKI. Dan, this is your off-farm job that helps keep your farm going?

Mr. EDGAR. Right.

Mr. SIKORSKI. Who do you go to? You are out there on a day-to-day basis. And your testimony is helpful because you give the down to earth perspective.

You deal, by the nature of your job, with—as my caseworkers do in my office—people who have problems.

And when we help solve them, then we can feel good. And you will get a thank you note and the rest of it which keeps you going.

But by the nature of your job, you are dealing with people who have problems, serious problems. And by the time you talk to them, probably terrible problems.

And some that you can assist in. That perspective is important. We have talked thus far about what we are doing, what successes people have been able to come through.

You have seen successes as well.

Mr. EDGAR. Yes. I guess the first part of your question about who do I go to. Currently we have five peer counsellors including myself and a three-other-person staff. We meet on a regular basis. I guess if it would not be for that, I would have been long gone. It is a very supportive group and I guess I need that encouragement to continue to go on, because it does get discouraging.

I guess the successes—I guess I did say in my testimony that I do not think that I have had any what I would consider real failures. Some have been more successful than others; that is how I like to look at it.

And it does give a person a big charge when you see someone take hold of their life and do something with it. And some of the other ones tend to get a little discouraging sometimes when people either through depression or for whatever reason are not able to make decisions and their lives just seem to be floundering.

And knowing that you just have to be patient and there is not a whole lot you can do about it.

Mr. SIKORSKI. Good. Thank you. What is the potential for you? You are kind of on the edge as well. From the nature of your testimony, it has not been a long-term project yet.

You see the light at the end of the tunnel. You see potential there. But there is a grant there that is helping along the way.

What is the potential for the small scale processing endeavors for the long-term competing with these major processors, the Hormels of the world?

Mr. EDGAR. I would say medium. Prior to starting this, I would have said good because I foresee or I see out in the public area a lot of people looking for less than something just made by the—or more than something just made by the major packers. They are looking for the small name on the product, something that they can tie onto and feel that it is a little more care, perhaps, than they perceive the major packers doing.

After I had gotten into it I realized that the bulk of the shoppers out there, though, are strictly geared to just putting food on the table.

There is a percentage in the food case of people who wish to look for that special product. And there is room for many of us out there.

Compared to the decentralization, deregulation of the airline industry, there is going to be room for regional packers throughout the nation. I see that coming.

But it is not going to be easy. It is a tremendous marketing effort.

Mr. SIKORSKI. I would assume that marketing is the key. There is an article in one of the weekend papers about the competition for shelf space in a grocery store.

Mr. EDGAR. Yes. My hardest sale is to the grocer himself because every space that he gives me, he has to pull somebody else off. And those people were there before me. They were by nature the beast.

So it is a tough sale. It is a hard sale. Our potential in our little plant, it was geared around a maximum of about the equivalent of about 200–250 head per week.

That is compared to a thousand per hour down at Swift. So with that in mind, we felt that there was very little chance for screw-up because we were so blame small. It still needs to be accepted at the counter within the regional market that you can get to.

There is room for others and it takes—part of what I volunteered to the Southwest Minnesota Initiative Fund and now the Northwest—it takes somebody to help people see what that marketing reality is.

Mr. SIKORSKI. What are your brands?

Mr. EDGAR. I'm sorry?

Mr. SIKORSKI. What are your brands?

Mr. EDGAR. We are called Shakopee Creek Farms.

Mr. SIKORSKI. Shakopee Creek Farms.

Mr. EDGAR. Yes.

Mr. SIKORSKI. Remember that, everyone. Shakopee Creek Farms.

Mr. EDGAR. Just ask for us at the stores. One other thing of interest is I mentioned the focus had gotten well beyond our area.

Last February when Mr. Agin Begian, Chief Economic Advisor to Gorbachev, was in the country partly through Mr. Dayton, Mark Dayton. We were one of the only small farms and processing plants in his entire visit that he came out to see us to see what we were doing.

The interesting thing was that he was trying to put what he viewed as a small-type processing place back onto the commune farms that they have over there.

So it was fun to talk to him.

Mr. SIKORSKI. Coming from different directions.

Mr. EDGAR. Different directions.

Mr. SIKORSKI. Best of luck, Shakopee Creek Farms. [Laughter.]

Is there something particular about the people of Winnebago that allowed them to—is there magic in the water or genes or something that made them different—or is this, you know, the people there are like people in any small town in any community in rural Minnesota or rural America?

Ms. VELTA. I think it was home. We did not want to leave our homes. We did not want to leave our communities. Many of us had husbands that had good jobs.

They were not about to move where our jobs were.

Mr. SIKORSKI. When Perry mentioned earlier about the fathers in New London, I was going to mention about the mothers of Winnebago.

Ms. VELTA. Yes. I was not particularly interested in whether I got a job personally. I am retirement age or practically to it. My husband makes enough I could live. But there were lots of people that didn't. There were lots of people that needed jobs very badly.

And some of them, their husbands were still working but they did not have enough money. We just did not want the town to go down the tubes that way. That is about what it amounted to.

The town people didn't, Faribault County didn't, and it was just everybody pitching in altogether.

Mr. SIKORSKI. Okay. One last question. I thank you.

I want to introduce the Chairman of the Subcommittee on Census and Population, Merv Dymally from California, and we thank you for coming.

We thank you for having the hearing in Minnesota. I was just going to ask Barbara Bladin is there anything special about the people of Wayzata that made it possible to set up this kind of exchange, this sister church relationship.

Ms. BLADIN. Well, just because of the covenantal relationship they had with our church on the Iron Range. They opened up a church.

And also the people at Wayzata, like Mr. Nelson was saying, they are looking for that special product. They don't want to go to target and buy a wool pair of mittens for $5.

They are looking for this handknit, handspun, dyed with blueberries type of wool and they are looking for a high quality product. They are not looking for that—they are not the type of people that were just looking for the target specials.

They were going to nurture the handcrafted articles and also help out.

Mr. SIKORSKI. They benefit from this, too.

Ms. BLADIN. Oh definitely. They receive a good quality product. They just don't get a bunch of refrigerator magnets to buy. And they also can feel good that they are sharing their resources as a bigger urban community with a smaller rural community and people helping people is what it amounts to, sharing what you have with others to help them help themselves.

Mr. SIKORSKI. Very good. I have been there. It is all it is cracked up to be.

Ms. BLADIN. Thank you.

Mr. SIKORSKI. The prices are very reasonable and the merchandise is excellent.

Ms. BLADIN. Good.

Mr. SIKORSKI. Thank you all. Dan and Perry and Vi and Pat and Barbara, thank you very much.

The last panel involves Terry Montgomery who is a long time advocate for Minnesota and served the state in several capacities.

And Greg Sandbulte is here from Northspan, Executive Director of that group.

And Tom Gillaspy, I see him up here as well as the State Demographer.

Terry is a long time advocate for Minnesota, as I mentioned. He has been in higher education fields. He has been a small businessman and successful there. Successful in a whole host of activities, including Chief of Staff to the Governor and now in his latest position as President and Chief Executive Officer of one of the country's most unique corporations, the Greater Minnesota Corporation—I think it is unique to Minnesota in innovative efforts to ensure economic vitality.

Terry, welcome.

Mr. DYMALLY. Excuse me, Mr. Chairman. Just one moment please.

I want to take this opportunity to thank the Chairman for inviting the subcommittee here and to apologize for being late.

I was in New Orleans visiting my wife's mother who is ill and I could not get out of there any earlier than 6:50. so I apologize. Mr. Chairman, I would like to thank you for inviting me and for focusing attention on what is a very critical area in the census undertaking.

We are going to witness some shifts in population and there is a lot of focus on urban check-in, urban count, but very little on rural aspects of the census.

And you must be commended for focusing attention on this very critical need. And so I thank you very much for inviting me here.

Mr. SIKORSKI. Thank you, Mr. Chairman.

STATEMENT OF TERRY MONTGOMERY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GREATER MINNESOTA CORPORATION

Mr. MONTGOMERY. Congressman Sikorski and Mr. Chairman, we are delighted to have you with us. We are honored by your presence and I appreciate the time you have given us.

Congressman Sikorski and your staff, I appreciate the chance to come by for a few minutes this morning and discuss the Greater Minnesota Corporation, an innovative public-private partnership to promote jobs and economic development through applied research, product development and technology transfer.

The GMC is specifically aimed at helping rural Minnesota and those communities that are facing the most difficult economic problems these days.

Minnesota has a progressive tradition of seeking positive solutions to the challenges which confront us. Vision, pragmatism, dedication and commitment are the necessary ingredients.

The GMC was forged in such a spirit and aims to utilize local resources and hometown talent to create new products and services and jobs through a strategic program of applied research and development.

This initiative is being build on some impressive strengths characteristic of Minnesota: A superb public and private education system at all levels; an outstanding culture of entrepreneurship which has spawned some of the great companies of the world; a premier work force which has become the envy of the nation; a diverse economic base ranging from the rich natural resources and tourism of northern Minnesota; to the dynamic technology, healthcare and service industries of the metropolitan area, Duluth and

the St. Cloud to Rochester corridor; and to the diverse and incredibly productive agricultural regions stretching from the Red River Valley of the north to the Iowa border on the south.

The economy as we know is continuing to improve generally in Minnesota but that growth is primarily in the Twin Cities of Minneapolis/St. Paul and the metro area and a few larger communities around the state.

Forty-six rural counties in Minnesota lost population in the last six years and much of rural Minnesota is facing economic difficulties.

The traditional industries of agriculture, mining and forest products have been hard hit by international competition.

The Greater Minnesota Corporation is designed to meet this challenge by acting as a catalyst between our educational systems and entrepreneurs to research new products and services and pave the path for the new products from the laboratory to the marketplace.

It may finance applied research and partnership with private businesses, colleges, universities and other post-secondary educational institutions in Minnesota.

Assistance may include matching grants and contract research with public and private institutions. The GMC may also sponsor research at its own facilities. On-site research centers could enable the corporation to resound swiftly to changing priorities and emerging research needs.

It may establish up to four Regional Research Institutes near existing post-secondary facilities. These institutes will be independently administered by the GMC and will focus on special research areas.

They will coordinate research with nearby educational institutions, conduct contract research, and make product development grants.

The first institute, the Agricultural Utilization Research Institute, was designated by statute. To be located in an agricultural area, it will sponsor research to develop new uses for and products from Minnesota agricultural commodities.

An Advisory Board comprised of representatives of farm organizations, commodity groups, agribusinesses and the chairs of the Minnesota House and Senate ag committees is in the process of developing a plan for the Ag Institute to recommend to the Greater Minnesota Corporation Board of Directors.

The first major initiative of the Greater Minnesota associated with agriculture is the Agricultural Utilization Applied Research Grant Pilot Program.

The purpose of the program is to promote applied research leading to new products from, uses for, or value improvements in Minnesota's agricultural commodities.

The program offers an opportunity to leverage federal with private funds. A committee designated by the GMC evaluated 32 grant proposals submitted under the pilot grant program, ranked the top 12 for priority funding and submitted the entire 32 proposals to the U.S. House Appropriations Committee via Congressman Vin Weber of Minnesota's Second Congressional District.

On May 26, the House Appropriations Committee passed their report to the agricultural appropriations bill for fiscal year 1989 and included $200,000 for the pilot grant program with the understanding that the funds will be used to partially fund the top nine ranked grant projects.

The GMC and funds or in-kind services from the proposer or other sources will provide the balance of funds for the projects, which aim to improve the utilization of Minnesota corn, soybeans, sugarbeets and wheat.

Agriculture Committee members Congressman Tim Penny and Congressman Arlan Strangeland have played a strong supporting role in this effort.

We will count on the leadership of the entire Minnesota Congressional delegation, including Congressman Sikorski, to assist in securing final enactment of federal funding so that the pilot grant program can proceed with this important research and development.

Other GMC initiatives are being planned and will be unveiled later this year.

The interest in the Greater Minnesota Corporation is strong, the momentum is building, and we are off, I believe, to a good start.

The Minnesota Legislature provided $27 million for the GMC as start-up funds, $5.5 million of which is to support the Agricultural Utilization Research Institute.

It further directed that one-half of the proceeds from the proposed state lottery be allocated to the GMC Trust Fund. This combination of funding could build a $300 million endowment over the next five or six years to provide long-term stability and insulate the GMC from politics and economic swings.

The Greater Minnesota Corporation is not a quick fix. It is not an overnight panacea. It is rather an investment to generate long-term growth and prosperity for all Minnesotans for generations to come.

It is, without doubt, the most strategic economic development initiative ever launched in Minnesota. We aim to make this program the best of its kind in the nation and to build a greater Minnesota and a more competitive America.

Thank you, Mr. Chairman. Thank you, Congressman Sikorski.

[The attachment to the prepared statement of Mr. Montgomery follows:]

Greater Minnesota Corporation
International Centre
Suite 440
900 Second Avenue South
Minneapolis, Minnesota 55402

(612) 347-9292

THE GREATER MINNESOTA CORPORATION

OVERVIEW

The Greater Minnesota Corporation was created to promote jobs and economic growth through applied research, technology transfer and product development. Proposed by Governor Rudy Perpich in 1986, enabling legislation was enacted in 1987. While the Corporation may operate statewide, it is expected to direct many of its activities to communities outside of the Twin Cities. It will form partnerships with education, business, labor and agriculture to focus Minnesota's applied research and development efforts on new products, businesses and jobs for the industries of the future.

GOVERNANCE

The Corporation is not a state agency, but a "public corporation" governed by an 11 member board of directors. The governor appointed the initial Board of Directors in November, 1987. They are:

Howard G. Fortier
President
Teamsters Joint Council #32

Dr. Donald S. Fredrickson
Former Director
National Institutes of Health

Harold W. Greenwood, Jr.
Chairman of the Board
President and CEO
Midwest Federal Savings and
Loan Association

Dr. D. Bruce Merrifield
Assistant Secretary for Productivity
Technology and Innovation
U.S. Department of Commerce

Dr. William F. Miller
President and CEO
SRI International
Member, Board of Directors
National Science Foundation

Mr. William C. Norris
Founder and Chairman Emeritus
Control Data Corporation

Dale R. Olseth
President and CEO
Bio-Metric Systems, Inc.

Laurence L. Osterwise
General Manager
IBM Corporation

Francis J. Ryan
Chairman of the Board
Ryan Construction Company

Elroy Webster
Chairman of the Board
CENEX

May Ka Yee Yue
Founder and Owner
Financial Services, Inc.

The Board of Directors will make all future appointments to the Board.

All appointments are subject to the consent of the Minnesota Senate. At its first meeting, the Board elected Mr. Harold W. Greenwood, Jr. President protem. The Board will also appoint a permanent president, set compensation and prepare an operational plan. Meetings of the Corporation are open to the public, but may be closed in some circumstances. In other respects the Corporation will operate much like a business corporation.

APPLIED RESEARCH

The Corporation will promote applied research leading to new jobs and businesses throughout the state. To provide scientific and technical advice, the Corporation will establish a Research Advisory Board. The research activities of the Corporation will include:

* Research Financing

  It may finance applied research in partnership with private businesses, colleges, universities and other post-secondary educational institutions in the state. Research assistance includes:

  * Matching grants to post-secondary educational institutions; and

  * Contract research with public or private research institutions.

* On-Site Research

  The Corporation may also construct, own and operate its own research centers. This on-site research capability will enable it to respond swiftly to changing priorities and emerging applied research needs.

* Regional Research Institutes

  The Corporation may establish up to four Regional Research Institutes, each to be located near a Minnesota post-secondary educational facility. The Agricultural Utilization Research Institute will be one of the four regional institutes. Located in an agricultural region of the state, it will sponsor research and develop new uses for Minnesota's farm commodities. Its directors will represent major commodity, farming and agri-business organizations. The regional institutes will:

  * Coordinate applied research with educational institutions;
  * Perform contract research for individuals, businesses and other organizations; and
  * Make product development grants.

BUSINESS DEVELOPMENT

The Corporation's mission also includes transfer of technology and investing in new products and businesses, including equity investments, loans or other investments. Such investments may be made directly by the Corporation's board or, if the board chooses to create one, through a financing subsidiary to be known as the Greater Minnesota Finance Authority. If created, this authority must include the president and one other member of the Corporation, and five other persons knowledgeable in business development, finance, banking, and venture capital. The board will establish standards for its investments.

* Equity Investments

Effective July 1, 1988, the Corporation may make direct investments in order to nurture new products and enterprises. While the Corporation may make equity investments in existing or new businesses, its equity investments are expected to concentrate on new products and ventures which have conducted research at the Corporation's research facilities. Such investments may include:

* Equity ownership of stocks, warrants, or convertible debt;
* Participation as a limited partner in partnerships, including venture capital limited partnerships; and
* Participation in joint ventures with private corporations.

* Loans and Other Investments

The Corporation may also provide other financing services including:

* Direct loans;
* Insurance or loan guarantees;
* Interest subsidies; and
* Participations in loans made by other lenders.

FUNDING

The Corporation will administer two funds:

* The Greater Minnesota Fund, consisting of:

  Approximately $20,000,000 in state general fund proceeds,

  $2,000,000 in loan repayments by the former Minnesota Energy and Economic Development Authority which have been assigned to the GMC, and

  If a lottery is authorized by Minnesota voters, one-half of the net proceeds of the lottery for a five year period. It is estimated this may total $250,000,000.

* The Agricultural Project Utilization Fund, consisting of:

  $3,500,000 from the rural rehabilitation revolving fund for the Agricultural Utilization Research Institute (AURI), and

  $2,000,000 received from oil overcharge litigation for AURI grants.

Further information may be obtained by calling (612) 347-9292.

Revised 5/12/88

Mr. SIKORSKI. Thank you, Terry.

I cannot think of anyone who is better qualified and has more enthusiasm for this project, and everyone can feel good about your leadership.

Like Terry, Greg Sandbulte, Executive Director of the Norspan Group, is leading a creative effort to harness the resources of Minnesota and outside of Minnesota for the benefit of the entire state.

He will share with us the experience of Minnesota Marketplace, a program which has inspired similar efforts elsewhere.

Greg, why don't you go ahead?

STATEMENT OF GREG SANDBULTE, EXECUTIVE DIRECTOR, NORTHSPAN GROUP, MINNESOTA MARKETPLACE

Mr. SANDBULTE. Thank you, Mr. Chairman. Thank you, Congressman Sikorski.

The Northspan Group, Inc., (Northspan) a private non-profit economic development firm working throughout the seven-county area of northeastern Minnesota known as the Arrowhead Region, was created in late 1985 by the Arrowhead Regional Development Commission (ARDC) as a means of providing economic development services through a private entity which would have a more entrepreneurial approach to economic development opportunities, and greater operational and financial flexibility, than is characteristic of most public economic development efforts.

With a staff of nine working out of offices in Duluth and Hibbing, Northspan offers a broad range of development related assistance to its clients, who may be individuals, businesses, or local units of government. Historically, Northspan's economic development activities have focused on financing of new business start-ups and expansions of existing firms, by structuring financial packages utilizing all available incentives, and then packaging appropriate applications on behalf of its clients to access various funds available from private sources, as well as public funds offered by local, state, and federal programs. In performing this service, Northspan has worked both directly for the private business involved, and as agent for the local unit of government within whose jurisdiction the proposed development is to take place, depending on the circumstances of the particular project.

Northspan also represents a number of local revolving loan funds (RLF's) throughout northeastern Minnesota. The majority of these RLF's are relatively small in terms of their capitalization, and it is therefore not feasible for them to maintain staff responsible for working up and making recommendations on specific financing requests. In situations such as this, Northspan acts as technical support staff, providing review, analysis, and recommendations to the RLF Board.

Northspan's services are provided to its clients largely on a fee-for-service basis, as Northspan receives no mandated financial support from any public source. In effect, Northspan's financial posture is much the same as a law firm, accounting firm, or other professional service, and like other professional firms, Northspan's financial stability is based on its ability to perform quality work at a fair price. This reality serves to keep Northspan's operational focus

on efficiency and measureable results. Plainly put, if Northspan does a poor job, it loses clients, and eventually goes out of business. This is one of the unique features of Northspan which sets it apart from the vast majority of economic development efforts.

Through the activities described above, Northspan plays an important role in the economic development of the Arrowhead Region, by serving as a pooled staff resource with experience and knowledge, available to businesses or local units of government in need of development assistance. Northspan itself is an innovative approach to regional economic development, stressing an entrepreneurial approach to its operations, and with its survival, success, and growth based on performance and results.

While it is not Northspan's objective to be all things to all people, or to pursue organizational growth as a goal in itself, Northspan does seek to grow through logical expansions of its economic development focus. To do so, Northspan strives to identify new opportunities and implement innovative approaches to the Arrowhead Region's further economic development. Two current examples of this type of innovation may be of particular interest to the Subcommittee; Minnesota Marketplace and Arrowhead Business Connection.

In the spring of 1987, Northspan established a focused program of import substitution in northeast Minnesota known as Minnesota Marketplace.

Modelled after a similar program in Oregon, Minnesota Marketplace is based on the very simple concept of a capitalist economy: when presented with full and complete information, a business will make purchase decisions which are in their best interests.

Minnesota Marketplace works to provide that full and complete information.

Businesses make purchase decision for any number of reasons, many of which have little to do with a thorough review of all available options.

Tradition, convenience, being in the right place at the right time are but a few of the factors that influence purchase decisions.

It is often true that if a purchaser took the time to search, he or she may be able to find a supplier whose price, quality or order quantities would result in a better buy than the current supplier.

Realistically, however, most businesses do not have the time or the budget to conduct exhaustive product searches each time they go to purchase and some purchases are therefore made which are less than optimal.

Minnesota Marketplace staff meet with businesses one on one at their places of businesses. And after explaining the concept, work with the business person to identify products that are currently being purchased from out-of-state suppliers.

Based on its evaluation, one or more products are then selected for a product search.

Minnesota Marketplace staff then work with the business person to draw up product specifications to be used in the search process and the marketplace staff involved will conduct a regionwide search for a supplier.

Searches are conducted using all available data resources, a network of local contacts in the various communities of the Arrow-

head Region and, most importantly, the knowledge of the business community possessed by the marketplace staff in combination with a lot of leg work.

This is a key point because finding a supplier who currently manufactures a sought-after product is unlikely or at the very least it is unlikely that the buyer does not already know it exists.

What is more often the case is that we identify a business which may be willing to expand to meet the identified product demand.

It is in situations such as this where the Minnesota Marketplace demonstrates its full potential. A supplier who currently does not produce the particular product desired sees the potential for new business and decides to expand operations to meet the demand.

Minnesota Marketplace is truly a demand-driven program as opposed to being supply-driven. Instead of asking, "I make this. Now how do I sell it?", Minnesota Marketplace asks, "Here is a product in demand. Can you produce it?"

When the answer to that question is yes, the result is jobs created, new investment in equipment and more diverse and stable regional economy.

Product search is done on a blind-bidding basis, protecting the identify of the purchaser. It is done so the purchaser is not bombarded with inquiries of hopeful suppliers.

Rather, when the search has been completed, the Minnesota Marketplace staff person meets with the purchaser and presents all bids which have been received.

It is then up to the purchaser to decide whether he or she would like to meet further with any of the suppliers. This is another key element of the program.

Unlike many "Buy local" campaigns, the Minnesota Market is not an effort to get businesses to buy from local suppliers because it is the right thing to do. It is not a PR or a media campaign.

Purchasers have total control over whether or not they choose to purchase from any suppliers identified by Minnesota Marketplace.

Even if a supplier is found with a better product at a better price, there is no requirement whatsoever that a purchaser buy from that supplier.

Naturally, if such a supplier is found, the purchaser often chooses to do business with that supplier.

When a successful match of a purchaser and supplier is made, the supplier pays a 5 per cent commission to Minnesota Marketplace based on the first year of sales of the specific product sold to the purchaser.

The purchaser pays nothing to use Minnesota Marketplace's service because we made sure as to not to create any barriers to purchaser involvement. Without products to search for, we have no program.

The commission has posed no problem with suppliers for a number of reasons. First, many suppliers are paying their reps greater than 5 per cent sales commissions and do not feel that it is exorbitant by any means. In fact, it is a relative bargain.

Secondly, the commission is not applied to sales beyond the first year and is not applied to any other products a supplier may be able to sell to the purchaser now that they have been introduced.

And it is not applied to and sales of that specific product to other purchasers. The revenue generated by the commission is used to support the program costs and will be the basis for eventual self-sufficiency of the program, a major objective.

There are currently three regional programs in operation in Minnesota. Northspan's seven-county effort and similar five- county efforts to the west and south of the Arrowhead Region, when searches are unsuccessful with any particular regional program, they are made available to the other two regions and several inter-regional matches have already been completed.

Minnesota Marketplace has been extremely well-received by the business community. It has generated interest throughout the state of Minnesota. Efforts are currently underway to expand the marketplace program statewide.

In fact, the Minnesota Legislature during its most recent session appropriated $350,000 for that effort.

That is the end of my comments on the Minnesota Marketplace and I can hear that ticking so I guess I have only got about a minute left.

Mr. SIKORSKI. Why don't you do a summary on Northspan?

Mr. MONTGOMERY. Well, Northspan was created two and a half years ago quite frankly as a means of providing direct economic development assistance to private businesses through private entities.

Issues such as confidentiality, et cetera, we were finding that certain types of programs were not being very effectively offered through public bodies largely through perceptual difficulties.

I worked for a quasi-public organization and the number of the businesses we dealt with said you are from the government. You cannot honestly be confidential. Even though a large part of that is perceptual, nonetheless it is a problem.

So we created a private entity to deliver direct business services.

Since that time we worked on a number of finance related projects. Our roots go back into financial packaging for specific start-ups and expansions.

We have established the Minnesota Marketplace program. We also have established an effort called the Arrowhead Business Connection which is a focused marketing effort to market Minnesota's northeastern Minnesota area, I guess, as the product to the insurance claims processing industry.

In 1984, when Northeastern Minnesota's economy was at its worst, the Arrowhead Regional Development Commission engaged The Fantus Company to undertake an intensive analysis of the region's economy. The purpose of the analysis was to identify new economic development opportunities using the region's existing business assets and liabilities as a base.

Based on its analysis of the Arrowhead Region's assets and liabilities as related to specific industries, Fantus, one of the nation's premier site selection firms, identified several industries which were particularly well suited to northeastern Minnesota. One industry in particular, the office sector, was identified as having a "good fit" with the Arrowhead Region, based on factors important in that industry such as low square footage costs, productivity of employees, high educational levels, and lower than average employment costs.

In 1986 Northspan started a project aimed at capitalizing upon this newly identified opportunity. That project, now known as Arrowhead Business Connection or ABC, is a region-wide effort to develop Northeastern Minnesota's office sector. Put another way, ABC is working to create new information processing jobs in Northeastern Minnesota. It is one of the few, if not the only, region-wide, office sector development projects in the country.

Northeastern Minnesota's economy is heavily dependent upon natural resource-based industries such as mining and wood products. These industries tend to be very cyclical. Mining in particular has experienced a sharp decline in recent years.

ABC is helping to create new employment in a less cyclical industry. The office sector industry is comparatively inelastic. Insurance policy and claims processing, consumer loan collections, coupon redemption, and other office activities usually continue unchecked during a recession.

There are two components to the ABC project: First, soliciting office sector companies to locate back-offices in Northeastern Minnesota; and Second, homegrowing an office sector business in Northeastern Minnesota which will export its services outside the region, thereby bringing new dollars into Northeastern Minnesota and creating new employment. Both components of this targeted effort are meeting with success.

ABC persuaded United HealthCare Corporation, the country's second largest publicly held health maintenance organization, to open a national data entry and health claims processing back-office in International Falls, Minnesota. The facility, which opened last January, now employes thirty-four local residents. Employment is expected to grow to 90 by the end of next year. The positions are full time, pay competitive wages, and are accompanied by a full benefits package. Annual payroll alone is projected at $500,000 for 1988. ABC is working with several other officer-sector companies who are interested in Northeastern Minnesota as a home for back-office facilities.

ABC also persuaded one of the region's largest health care providers to jointly pursue a feasibility study and business plan for a for-profit medical records transcription business. A medical records transcription business based in Northeastern Minnesota would provide transcription services to healthcare providers throughout the midwest utilizing existing telecommunications technology. Completion of the feasibility study and business plan is expected in the coming months. Capitalization of the business will likely be sought at that time.

Northspan continues to pursue innovative approaches to economic development in northeastern Minnesota. It is through such innovation, as evidenced by the creation of Northspan, Minnesota Marketplace, and Arrowhead Business Connection, that the economy of northeastern MInnesota will become more diverse, stable, and vital. The results of these efforts, and the efforts of many others, are essential if individuals who wish to live and work in the Arrowhead Region are to be afforded the opportunity to do so, and not forced to leave the area in search of opportunity elsewhere

Mr. SIKORSKI. Thank you.

Our final witness is the State Demographer, Tom Gillaspy, who is coordinating a new federal program that shows the benefits we all reap when the Federal Government and states all join together.

Minnesota has been selected as one of 15 pilot states for the business and industry data center project of the U. S. Department of Commerce.

It attempts to encourage rural industry by providing business with easily accessible data about operating in rural areas and you can tell us a lot about how the census fits into that program.

Thanks, Tom.

STATEMENT OF DR. THOMAS GILLASPY, STATE DEMOGRAPHER, BUSINESS AND INDUSTRY DATA CENTER, MINNESOTA STATE PLANNING AGENCY

Mr. GILLASPY. Mr. Chairman, Congressman Sikorski.

I would like to describe what I feel to be a very exciting new cooperative venture between the Census Bureau and the State Government of Minnesota.

It is designed to provide timely and useful government information, both federal and state information, to businesses, local government and other organizations not just in the Twin Cities but throughout the state.

The ultimate purpose of this venture is to improve the economic development potential in all areas of the state and to improve the competitive potential of Minnesota enterprises both nationally and internationally.

At the Census Bureau, this program is called the Business and Industry Data Center. In Minnesota, we chose a slightly different name: the Economic and Business Information Network, to emphasize that this is not a place for data but rather a network of knowledgeable individuals ready to provide information.

Accurate, timely and useful information is a vital ingredient to the success of our nation's private and public enterprises.

Not just data or even just information, but rather actionable information, intelligence, if you will.

For businesses, this type of information is especially important in developing efficient strategies including investment decisions, site locations, staffing decisions, product development, marketing potential, client identification, identifying import trade leads and so on.

A couple of examples will help clarify the importance and usefulness of the information. First, the owners of a specialized printing business in St. Cloud were considering closing the business. One of the employees of the business considered buying the business but to make intelligent decisions he had to determine the size and potential scope of the market area for this service. He contacted the St. Cloud Small Business Development Center which assisted him in developing the plan, a business plan, using demographic information and information from the Federal Census of various industries. As a result, he made an informed decision to purchase the business, retaining the current employees of the business.

A second example, a business firm vacated a 40,000 square foot building zoned for manufacturing in Cambridge, Minnesota, a couple of years ago. The business promotion division of the Minne-

sota Department of Trade and Economic Development included this building in their data base of vacant buildings zoned for manufacturing. The Business Promotion Division was contacted by a manufacturer of a specialized flour. They were looking for a building of roughly 40,000 square foot with the specified ceiling height close to the metropolitan area but not too close. The match was made. The business now occupies the building.

I wish to note that not only were the businesses benefitted in these two examples, but jobs were retained or created. Cities were benefitted. And our state and our nation's social and economic welfare was increased.

But while government information represents a vital national resource gained at significant cost in both effort and dollars, it is not always available in a timely, useful and accessible form to the business community.

Too often there is too much data and not enough useful information. Too often the information is not timely enough. Too often finding the government expert who has and understands the needed information results in a frustrating and endless game of telephone tag.

Too often valuable information is buried in file cabinets, computers or incomprehensible technical reports. Even when all other conditions are met, to make the information useful and accessible it is too often available only in Washington, D.C., state capitals, or on expensive computer systems. Small and medium-size business in nonmetropolitan areas may find access just simply too difficult.

We are not now I believe getting the full value of our information resource.

To gain the full value, we need to identify that which is currently available, put it in a useful format and create a system of information intermediaries to translate between the suppliers and the users of information and improve the availability.

These are the purposes of the cooperative arrangement between the Census Bureau and the State of Minnesota. Minnesota is one of 15 states selected in the project.

The Census Bureau agrees to provide data in both printed and electronic medium to the state and affiliated organizations.

In addition, the Census Bureau has agreed to improve the information products at the suggestion of the participating states and to seek wider participation from other federal departments and agencies.

Within Minnesota, we recognize a substantial number of organizations which provide business information from libraries to academic institutions, trade organizations, small business development centers, regional development commissions, chambers of commerce, state departments and agencies and so on.

As individuals, we can each only provide a small segment of the needed information. Working together as a network, we can improve the information and the access to the information.

We plan to be in full operation before the end of summer, although there are tens of thousands of questions being answered every year already.

But we plan to be in full operation by then. The information will be available in a variety of formats and will range from demo-

graphic to economic trends to forecasts of national and international trade trends, very specific trade leads and services such as site location and business plan assistance.

We will not simply assume that we fully understand the information needs of businesses and other groups. We plan to first provide the product that we believe are useful and then through informal contacts and more formal approaches, determine from the users how the information can be improved.

We will then make the necessary adjustments here and also inform the Census Bureau how the information services can be improved.

In short, develop a feedback mechanism which has been sorely lacking in the past.

All of this is being accomplished with little expenditure of funds and no federal to state grants. While more could be accomplished with increased financial support, the critical element is the excitement that has been generated among federal and state bureaucrats— and I think I can say that without being an inherent contradiction; people are excited—the bureaucrats, and many other organizations involved, the commitment of our state commissions and the U.S. Department of Commerce.

Thank you.

Mr. SIKORSKI. Mr. Chairman, I want you to note that Mr. Gillaspy has a southern Minnesota accent. Actually, he is originally from Texas, which raises a point.

I just learned our population growth in Minnesota is higher than the Texas population growth, one of the so-called mushrooming Sunbelt states.

Mr. GILLASPY. We might want to say that real fast.

Mr. SIKORSKI. It is changing?

Mr. GILLASPY. Our population growth rate is up a bit. Texas, for many reasons, many of them are unfortunate, is down some.

So we are riding, statewide at least although there are still pockets of trouble, in Minnesota we are riding a fairly strong economic wave right now.

And Texas is still trying to get out from under the oil and agricultural problems that they face. So right now we are doing pretty well.

Mr. DYMALLY. What are the other events which resulted in this increased economic activity in addition to some of the very excellent testimony I heard here today?

Mr. GILLASPY. What are some of the elements? The Twin Cities, the St. Cloud area and the Rochester area are doing very, very well right now.

The growth has spread across most industries. The durables manufacturing is up almost across the Board. Computers, the computer industry which is still very important in the Twin Cities, has still not grown that much or still is sort of recovering out of an international recession.

But even that I think helps make the point that despite the fact that one of our larger sectors in the Twin Cities has not grown that much, the rest of the economy has grown very strongly.

The Twin Cities have a very diversified, very strong economic base right now. The difficulties I think lie outside of the Twin City

area. It is what my commissioner describes as a three-economy state.

It is a very complex picture. Minnesota is not the only state that has this characteristic. But we see, increasingly, differences between some of the metropolitan areas and the nonmetropolitan areas, and the central cities are also included, I think as one of those three economies. So we see a very rapidly growing metropolitan economy in many areas of the country, a very depressed or slow-growing center city economy, and a depressed or slow-growing or late-recovering nonmetropolitan economy.

Mr. DYMALLY. Mr. Montgomery, is the Greater Minnesota Corporation unique or are there other states with similar models?

Mr. MONTGOMERY. Thank you, Mr. Chairman.

The Greater Minnesota Corporation is patterned after the best efforts in the country and, by the way, we are using as our primary consultants a firm from your state, SRI International, at Menlo Park, California.

It is patterned, as I say, after the best efforts in the county which include programs such as the Ben Franklin Partnership in Pennsylvania, which has been operating now for about six years; Thomas Edison Fund in Ohio which has been up and running for five years.

The Michigan Strategic Fund in Michigan, the Indiana Corporation for Science and Technology, and others like that throughout the country.

Most states, Mr. Chairman, have initiated aggressive efforts in research and development in recent years on the thesis that America in the international marketplace must be on the leading edge in order to remain competitive in years ahead.

Minnesota is somewhat slower getting into the game but I believe as a result we have a stronger, better prepared program because we have been able to look at the best and the worst cases in the country.

Mr. DYMALLY. Thank you.

Mr. SIKORSKI. Terry, you are involving the producers of agriculture products in the decision-making processes, prioritizing of research in the agriculture area as well.

Mr. MONTGOMERY. Mr. Chairman, Congressman Sikorski yes, very much so.

Our whole effort is to work hand in hand with the private sector. The strength of this program will be the market-driven forces, as Greg alluded to in his program, and the public-private partnership resulting from that.

Mr. SIKORSKI. Great.

Greg, you probably could help, and Minnesota Marketplace, Shakopee Farms.

Mr. SANDBULTE. We probably could, once we have completed expanding statewide.

Right now we do not have the capability of dealing with operations such as Shakopee.

Mr. SIKORSKI. So your drive in from New London probably helped you.

Mr. SANDBULTE. One thing I would like to respond to is the question Mr. Gillaspy answered. His point, I don't think, can be

stressed strongly enough, coming from an area of northeastern Minnesota which is not enjoying the same rebound in the last few years that the metropolitan area has.

We have heard Commissioner Kawamura, Dr. Beall, Dr. Long, Mr. Gillaspy all say again and again and again that there are at least two and maybe three economies in the state of Minnesota.

That is also clearly the proof in the pudding of some points that were made this morning about you can only live in God's country so long without a job.

And frankly while the unemployment rates, et cetera, have improved in northeast Minnesota in the recent years, a large part of that is due to out-migration. It is due to individuals that have been out of work so long that they are no longer counted in unemployment statistics.

And there is still a lot of pain going on out there. In recent years, the economic statistics in northeast Minnesota have had their primary value in getting state and federal grants where the worse off you are, the better your chances are.

Beyond that, there has not been a lot of good news. The recent rebound in mining has helped some. Boise Cascade's announcement of a half a billion dollar investment in International Falls this past week is clearly very helpful.

But there is yet a long way to go and I would not want to leave you with the impression that things are rosy up at least in northeast Minnesota.

Mr. SIKORSKI. If anyone has operated under that impression, they could read the last page of the Commissioner's testimony which Tom, I am sure, helped form. The point is that there is an invisible Minnesota. There is an invisible America, that to a great extent in this last decade have gotten poorer. And they are worse off now than they were before the most recent economic expansion.

That is the reason we have Northspan. That is the reason we have the Greater Minnesota Corporation, to try to focus on putting together an economy that helps better but also relieves some of the pressures on those pockets.

It is important point to raise at the beginning of our hearing and end on it as well.

And with the drought hanging over our economy, it is an added concern that we could have a very fragile economic expansion going on in America and in Minnesota.

And the drought could harm it and harm a lot of good people in the process.

Your testimony has been very helpful. There are a lot of positive things going on in rural Minnesota and we will be assisting and working and cheerleading Northspan and GMC and the new project with information there.

The final point you raised, Greg, is that the census is not always good at picking out the pockets of poverty. We have Tom's, your Commissioner's, testimony. It points out that the problem for Minnesota and most other states is that we know virtually nothing about poverty and poverty rates within the state.

And hopefully through the Chairman's leadership we are going to be able to do a little bit better in that regard this time around in 1990.

Thank you all.

Thank you, Mr. Chairman.

[Whereupon, at 12:10 p.m. the subcommittee was adjourned.]

○

90-255 (136)